RBC Global Asset Management

The Global Investment Outlook

RBC GAM Investment Strategy Committee

NEW YEAR 2025

The RBC GAM Investment Strategy Committee

The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC Global Asset Management. The Committee regularly receives economic and capital markets related input from internal and external sources. Important guidance is provided by the Committee's regional equity advisors (North America, Europe, Asia, Emerging Markets) and from the Global Fixed Income & Currencies sub-committee. From this, the Committee builds a detailed global investment forecast looking one year forward.

The Committee's view includes an assessment of global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits and stock prices.

From this global forecast, the RBC GAM Investment Strategy Committee develops specific guidelines that can be used to manage portfolios.

These include:

The recommended mix of cash, fixed income instruments, and equities.

The recommended global exposure of fixed income and equity portfolios.

The optimal term structure for fixed income investments.

The suggested sector and geographic make-up within equity portfolios.

The preferred exposure to major currencies.

Results of the Committee's deliberations are published quarterly in *The Global Investment Outlook*.

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Executive summary

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Chief Investment Officer
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Investors are enthused by a combination of moderating inflation, falling interest rates and Trump's election victory, which signals more U.S. growth, lower taxes and less regulation. Stocks climbed to record levels as a result. While valuation risk is mostly concentrated in U.S. large-cap growth stocks, many global equity markets still offer attractive return potential.

Economic outlook improves, helped by pro-growth U.S. administration

The economy has stabilized in recent months as inflation concerns moderate and headwinds created by higher borrowing costs fade amid interest-rate cuts. A major event risk was also resolved in the form of the U.S. election, which yielded a Republican victory in the race for the White House and Congress. While uncertainty remains as to which of President-Elect Donald Trump's ideas will be implemented, we assume that his proposed tariff and immigration policies will be significantly tempered, allowing for the effects of tax cuts, deregulation and rising animal spirits to dominate, moderately boosting the near-term U.S. growth outlook. The risk of a recession appears to have declined further and we now assign a 75% probability to a soft landing for the U.S. economy. As usual, there are a variety of risks to our base case outlook. These include uncertainty with respect to the new U.S. administration, interest-rate policy and geopolitical instability reflected by events in Ukraine and the Middle East, as well as China's housing challenges. All in all, our GDP forecasts continue to anticipate further economic growth, mostly at a moderate clip over the first half of 2025, before accelerating later in the year. Our U.S. growth outlook for 2025 has improved over the past quarter to 2.3% from 1.7%. In contrast, other developed-world forecasts are generally flat to lower, with expected growth rates slower than the U.S. For emerging markets, aggregate economic growth may slow marginally in 2025 from 2024.

Inflation likely continues cooling, though tariffs complicate the outlook

While inflation is much lower than the heights reached in 2021/2022, it isn't yet all the way back to normal and the downward path has been a bit less consistent in recent months. Additional pressures via tariffs and faster growth resulting from the new Administration's policy proposals have motivated us to raise our U.S. inflation forecast for 2025 to 2.6% from 2.3%. This forecast is slightly lower than the average rate in 2024, helped by lagged declines in shelter costs and a less dovish U.S. Federal Reserve (Fed). In other developed countries, inflation challenges are less prominent, and we have greater confidence in inflation converging toward a 2% target.

Pausing our U.S.-dollar bearish view

We've put our bearish U.S.-dollar outlook on pause following the November elections. Incoming President Trump's proposed policies on trade, taxes, deregulation and immigration are likely to be tough on U.S. trade partners and, even if these are watered down, it is likely that they would keep the Fed from cutting interest rates as much as we had previously expected. As a result, we expect the greenback to remain elevated for longer, even amid valuations that indicate dollar weakness beyond our forecast horizon. We think that the new administration's approach, as well as a more challenging European economic outlook, will pose greater headwinds for the euro while the yen, pound and Canadian dollar will be more resilient. The Chinese renminbi will also be pressured by trade tensions, though its performance depends heavily on the actions of the Chinese central bank.

Central banks to slow pace of easing

Except for the Bank of Japan (BOJ), all major developed world central banks have begun dialing back monetary restriction, including the late-arriving Fed, which delivered an initial 50-basis-point cut in September followed by a further 25-basis-point rate cut in November. Central banks are in position to ease further, but perhaps with less intensity than has been delivered so far. The combination of firmer economic data and inflation, and the fact that interest rates are no longer as restrictive means that there is less urgency for further cuts. While the Fed can likely lower its policy rate to 3.5% by the end of 2025, that figure is higher than the 2.8% endpoint priced into the futures market as recently as mid-September. Other developed economies have lower neutral rates, meaning their policy rates are capable of descending into the 2%-3% range.

Increase in bond yields boosts return potential, diminishes valuation risk

The U.S. 10-year yield fell as low as 3.60% in September and rebounded sharply to about 4.40% after the U.S. election in November. With the latest rebound in yields, we think bonds are appropriately priced in most major sovereign-bond markets except Japan, with return potential ranging from low single digits to mid single digits, and the greatest return potential being in U.S. Treasuries. Our bond model, which combines real interest rates with an inflation premium, suggests a range of 3.4% to 4.5% for the U.S. 10-year yield over the forecast horizon. These markers, we think, serve well as ranges to tactically manage fixed-income positions. We forecast the U.S. 10-year yield toward the middle of that range, namely 4.00%, over the year ahead, which would mean bond investors would get to keep their coupon and even earn a bit of capital gain.

Stocks climb to new records, though valuations are reasonable outside U.S. mega-caps

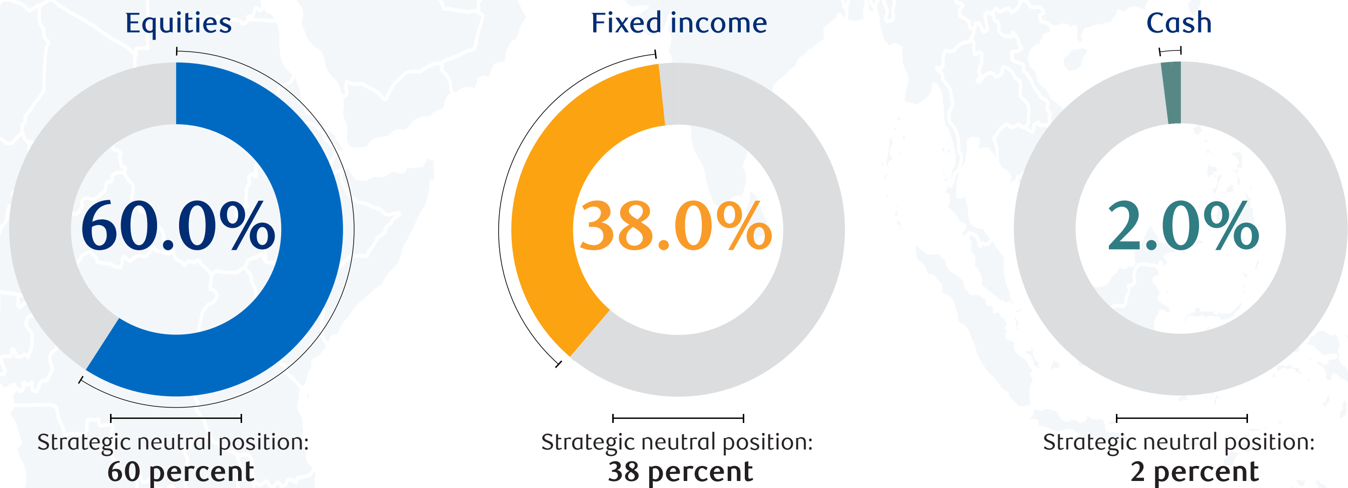
Global equities delivered impressive gains in the past year and many markets climbed to records. The strongest returns were delivered by U.S. mega-cap technology stocks, but gains began to broaden in the summer as other areas delivered strong returns. International markets underperformed, particularly after Trump's election win, given that his policy proposals favour domestic growth at the expense of international and emerging-market economies. After such a strong run in global equities, many investors may be concerned that stocks are overvalued. Our own models show that valuation excesses are concentrated in U.S. mega-cap stocks and that, outside this group of companies, equities range from fairly to attractively priced. If a re-acceleration in economic growth promotes a broad-based improvement in earnings, U.S. mid- and small-caps stocks and equities outside the U.S. could finally deliver superior returns.

Asset mix – eliminated prior underweight in bonds

Balancing the risks and potential opportunities, our asset mix is fixed at our strategic neutral position. In our view, bonds appear to be reasonably priced and yields are likely to trade in a range over the year ahead, providing fixed-income investors with low- to mid-single-digit returns with moderate valuation risk. Stocks offer better return potential than bonds, although we are concerned that a handful of mega-cap stocks continue to make up the bulk of the weighting and returns in the U.S. market. We have been more tactical in managing our fixed-income exposure over the past several quarters. This quarter we added one percentage point to our fixed-income position as yields jumped above 4%, eliminating the underweight that was introduced in the prior quarter following the plunge in yields. Fixing our tactical asset mix at its strategic neutral position acknowledges the unusually small equity risk premium that currently exists while allowing us to take advantage of market volatility that arises. Within our neutral equity allocation, we favour regions that will benefit from a pro-growth, America-centric administration - meaning a preference for North American equities and mid- and smaller-cap stocks. For a balanced global investor, we currently recommend an asset mix of 60.0 percent equities (strategic neutral position: 60.0 percent) and 38.0 percent fixed income (strategic neutral position: 38.0 percent), with the balance in cash.

Recommended asset mix

RBC GAM Investment Strategy Committee



Note: As of November 30, 2024. Source: RBC GAM

Economic & capital markets forecasts

Economic forecast (RBC GAM Investment Strategy Committee)

	United States		Canada		Europe		United Kingdom		Japan		China		Emerging markets*	
	New Year 2025	Change from Fall 2024	New Year 2025	Change from Fall 2024	New Year 2025	Change from Fall 2024	New Year 2025	Change from Fall 2024	New Year 2025	Change from Fall 2024	New Year 2025	Change from Fall 2024	New Year 2025	Change from Fall 2024
Real GDP														
2023A	2.89%		1.25%		0.51%		0.34%		1.67%		5.54%		5.52%	
2024E	2.70%	0.30	1.10%	N/C	0.80%	0.10	0.90%	(0.10)	(0.20%)	(0.20)	4.60%	(0.40)	4.70%	(0.25)
2025E	2.30%	0.60	1.70%	(0.10)	1.30%	(0.20)	1.40%	N/C	1.20%	(0.20)	4.30%	(0.30)	4.40%	(0.15)
CPI														
2023A	4.12%		3.88%		5.42%		7.30%		3.25%		0.33%		2.61%	
2024E	2.90%	N/C	2.40%	(0.10)	2.40%	(0.10)	2.50%	N/C	2.50%	N/C	0.40%	0.10	2.70%	0.26
2025E	2.60%	0.30	2.10%	(0.20)	2.10%	(0.10)	2.30%	N/C	2.10%	0.10	1.00%	(0.60)	2.80%	(0.13)

A = Actual E = Estimate *GDP Weighted Average of China, India, Brazil, Mexico and Russia.

Targets (RBC GAM Investment Strategy Committee)

	November 2024	Forecast November 2025	Change from Fall 2024	1-year total return estimate* (%)
Currency markets against USD				
CAD (USD–CAD)	1.40	1.36	0.06	1.8
EUR (EUR–USD)	1.06	1.09	(0.12)	0.9
JPY (USD–JPY)	149.77	142.00	12.00	1.5
GBP (GBP–USD)	1.27	1.33	(0.02)	4.5
Fixed income markets				
U.S. Fed Funds Rate (upper bound)	4.75	3.75	(0.50)	
U.S. 10-Year Bond	4.17	4.00	0.25	5.6
Canada Overnight Rate **	3.75	2.75	(0.50)	
Canada 10-Year Bond	3.09	3.25	N/C	1.7
Eurozone Deposit Facility Rate **	3.25	1.75	(0.75)	
Germany 10-Year Bund	2.09	2.25	(0.10)	0.7
U.K. Base Rate	4.75	4.00	(0.25)	
U.K. 10-Year Gilt	4.24	4.25	N/C	4.2
Japan Overnight Call Rate	0.23	0.75	N/C	
Japan 10-Year Bond	1.05	1.50	N/C	(3.1)
Equity markets				
S&P 500	6032	6300	500	5.7
S&P/TSX Composite	25648	26450	2150	5.9
MSCI Europe	171	174	(3)	5.3
FTSE 100	8287	8350	(325)	4.6
Nikkei	38208	41600	500	10.7
MSCI Emerging Markets	1079	1140	(35)	8.5

*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD.
** The Bank of Canada cut its policy rate by 50-basis-points to 3.25% on December 11, 2024 and the European Central Bank cut its policy rate by 25-basis-points to 3.00% on December 12, 2024. Source: RBC GAM

Recommended asset mix

Asset mix – the allocation within portfolios to stocks, bonds and cash – should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor's profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter-term fluctuations in markets.

Every individual has differing return expectations and tolerances for volatility, so there is no "one size fits all" strategic asset mix. Based on a 40-year study of historical returns[1] and the volatility[2] of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC GAM Investment Strategy Committee publishes a recommended asset mix based on our current view of the economy and return expectations for the major asset classes. These weights are further divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark (strategic neutral) setting is 60% equities, 38% fixed income, and 2% cash.

A tactical range of +/- 15% around the benchmark position allows us to raise or lower exposure to specific asset classes with a goal of tilting portfolios toward those markets that offer comparatively attractive near-term prospects.

This tactical recommendation for the Balanced profile can serve as a guide for movement within the ranges allowed for all other profiles.

The value-added of tactical strategies is, of course, dependent on the degree to which the expected scenario unfolds.

Regular reviews of portfolio weights are essential to the ultimate success of an investment plan as they ensure current exposures are aligned with levels of long-term returns and risk tolerances best suited to individual investors.

Anchoring portfolios with a suitable strategic asset mix, and placing boundaries defining the allowed range for tactical positioning, imposes discipline that can limit damage caused by swings in emotion that inevitably accompany both bull and bear markets.

[1]**Average return**: The average total return produced by the asset class over the period 1984 – 2024, based on monthly results.
[2]**Volatility**: The standard deviation of returns. Standard deviation is a statistical measure that indicates the range around the average return within which 2/3 of results will fall into, assuming a normal distribution around the long-term average.

Global asset mix

	Benchmark policy	Allowable range	New Year 2024	Spring 2024	Summer 2024	Fall 2024	**New Year 2025**
Cash	2.0%	0.0% – 15.0%	1.5%	1.5%	1.5%	3.0%	**2.0%**
Bonds	38.0%	23.0% – 53.0%	38.5%	38.5%	38.5%	37.0%	**38.0%**
Stocks	60.0%	45.0% – 75.0%	60.0%	60.0%	60.0%	60.0%	**60.0%**

Note: Effective June 1, 2020, we reset our strategic neutral positions to reflect long-lasting changes in economy and capital markets' dynamics. Boosting strategic neutral equity exposure by 5% and reducing fixed income by same amount in our reference balanced portfolio.

Regional allocation

Global bonds	WGBI* November 2024	Allowable range	New Year 2024	Spring 2024	Summer 2024	Fall 2024	**New Year 2025**
North America	44.2%	34.2% – 54.2%	47.7%	47.0%	44.5%	47.5%	**49.2%**
Europe	32.7%	22.7% – 42.7%	34.4%	34.6%	34.0%	33.1%	**32.7%**
Asia	23.0%	13.0% – 33.0%	18.0%	18.4%	21.4%	19.4%	**18.1%**

Global equities	MSCI** November 2024	Allowable range	New Year 2024	Spring 2024	Summer 2024	Fall 2024	**New Year 2025**
North America	73.0%	63.0% – 83.0%	69.8%	70.6%	70.6%	71.6%	**73.2%**
Europe	12.4%	2.4% – 22.4%	14.1%	13.8%	13.7%	13.3%	**12.2%**
Asia	6.3%	0.0% – 16.3%	8.1%	7.5%	7.5%	6.8%	**6.6%**
Emerging markets	8.3%	0.0% – 18.3%	8.1%	8.1%	8.3%	8.3%	**8.0%**

Our asset mix is reported as at the end of each quarter. The mix is fluid and may be adjusted within each quarter, although we do not always report on shifts as they occur. The weights in the table should be considered a snapshot of our asset mix at the date of release of the Global Investment Outlook.

Global equity sector allocation

	MSCI** November 2024	RBC GAM ISC Fall 2024	**RBC GAM ISC New Year 2025**	Change from Fall 2024	Weight vs. benchmark
Energy	3.97%	4.62%	5.37%	0.75	135.2%
Materials	3.61%	2.88%	2.71%	(0.17)	75.1%
Industrials	11.01%	12.89%	13.01%	0.12	118.2%
Consumer discretionary	10.28%	8.35%	10.28%	1.93	100.0%
Consumer staples	6.30%	5.62%	4.90%	(0.72)	77.8%
Health care	11.40%	13.34%	11.90%	(1.44)	104.4%
Financials	15.81%	17.01%	16.81%	(0.20)	106.3%
Information technology	24.99%	25.63%	24.99%	(0.64)	100.0%
Communication services	7.77%	5.69%	6.87%	1.17	88.4%
Utilities	2.63%	2.66%	2.63%	(0.03)	100.0%
Real estate	2.23%	1.30%	0.53%	(0.77)	23.7%

*FTSE World Government Bond Index. **MSCI World Index. Source: RBC GAM Investment Strategy Committee

At RBC GAM, we have a team dedicated to setting and reviewing the strategic asset mix for all of our multi-asset solutions. With an emphasis on consistency of returns, risk management and capital preservation, we have developed a strategic asset allocation framework for five client risk profiles that correspond to broad investor objectives and risk preferences. These five profiles range from Very Conservative through Balanced to Aggressive Growth.

Very Conservative

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	3.0%	2.0%
Fixed Income	73%	68-88%	72.0%	73.0%
Total Cash & Fixed Income	75%	60-90%	75.0%	75.0%
Canadian Equities	10%	0-20%	10.0%	10.0%
U.S. Equities	8%	0-18%	7.9%	8.0%
International Equities	7%	0-17%	7.1%	7.0%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	25%	10-40%	25.0%	25.0%

	Return	Volatility
40-year average	7.5%	4.9%
Last 12 months	13.3%	5.1%

Very Conservative investors will seek income with maximum capital preservation and the potential for modest capital growth, and be comfortable with small fluctuations in the value of their investments. This portfolio will invest primarily in fixed-income securities, and a small amount of equities, to generate income while providing some protection against inflation. Investors who fit this profile generally plan to hold their investment for the medium to long term.

Conservative

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	3.0%	2.0%
Fixed Income	58%	43-83%	57.0%	58.0%
Total Cash & Fixed Income	60%	45-75%	60.0%	60.0%
Canadian Equities	13%	3-23%	13.0%	13.1%
U.S. Equities	15%	5-25%	14.8%	15.0%
International Equities	12%	2-22%	12.2%	11.9%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	40%	25-55%	40.0%	40.0%

	Return	Volatility
40-year average	8.0%	6.1%
Last 12 months	16.3%	5.0%

Conservative investors will pursue modest income and capital growth with reasonable capital preservation, and be comfortable with moderate fluctuations in the value of their investments. The portfolio will invest primarily in fixed-income securities, with some equities, to achieve more consistent performance and provide a reasonable amount of safety. The profile is suitable for investors who plan to hold their investment over the medium to long term.

Balanced

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	3.0%	2.0%
Fixed Income	38%	23-53%	37.0%	38.0%
Total Cash & Fixed Income	40%	25-55%	40.0%	40.0%
Canadian Equities	15%	5-25%	15.0%	15.1%
U.S. Equities	25%	15-35%	24.7%	25.0%
International Equities	15%	5-25%	15.3%	15.1%
Emerging Markets	5%	0-15%	5.0%	4.8%
Total Equities	60%	45-75%	60.0%	60.0%

	Return	Volatility
40-year average	8.5%	7.7%
Last 12 months	20.3%	5.0%

The **Balanced** portfolio is appropriate for investors seeking balance between long-term capital growth and capital preservation, with a secondary focus on modest income, and who are comfortable with moderate fluctuations in the value of their investments. More than half the portfolio will usually be invested in a diversified mix of Canadian, U.S. and global equities. This profile is suitable for investors who plan to hold their investment for the medium to long term.

Growth

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	3.0%	3.0%
Fixed Income	23%	8-38%	22.0%	22.0%
Total Cash & Fixed Income	25%	10-40%	25.0%	25.0%
Canadian Equities	18%	8-28%	18.0%	18.1%
U.S. Equities	30%	20-40%	29.6%	30.0%
International Equities	19%	9-29%	19.4%	19.1%
Emerging Markets	8%	0-18%	8.0%	7.8%
Total Equities	75%	60-90%	75.0%	75.0%

	Return	Volatility
40-year average	8.8%	9.5%
Last 12 months	23.0%	5.1%

Investors who fit the **Growth** profile will seek long-term growth over capital preservation and regular income, and be comfortable with considerable fluctuations in the value of their investments. This portfolio primarily holds a diversified mix of Canadian, U.S. and global equities and is suitable for investors who plan to invest for the long term.

Aggressive Growth

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	0%	0-15%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-17%	2.0%	2.0%
Canadian Equities	29%	19-39%	29.0%	29.2%
U.S. Equities	38%	28-48%	37.5%	38.0%
International Equities	20%	10-30%	20.5%	20.1%
Emerging Markets	11%	1-21%	11.0%	10.7%
Total Equities	98%	83-100%	98.0%	98.0%

	Return	Volatility
40-year average	9.4%	11.9%
Last 12 months	28.3%	5.7%

Aggressive Growth investors seek maximum long-term growth over capital preservation and regular income, and are comfortable with significant fluctuations in the value of their investments. The portfolio is almost entirely invested in stocks and emphasizes exposure to global equities. This investment profile is suitable only for investors with a high risk tolerance and who plan to hold their investments for the long term.

Capital markets performance

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The U.S. dollar appreciated against all other major currencies during the three months ended November 30, 2024. The greenback was up 4.5% against the euro, 3.9% against the Canadian dollar, 3.0% versus the British pound and 2.4% versus the Japanese yen. The two main drivers of U.S.-dollar strength were the strength of the economy and Donald Trump's presidential election victory in early November. With the economy humming, the U.S. Federal Reserve (Fed) indicated it would take a more measured approach to additional interest-rate cuts, widening the expected interest-rate difference between the U.S. and other regions. President-Elect Trump's proposed policies on trade, taxes and deregulation are seen as inflationary but beneficial to growth and a boost to the dollar. The economic challenges in Europe, exacerbated by Trump's more aggressive approach with the eurozone on trade and defense, weakened the single currency more than other major currencies. The relative performance of the loonie, sterling and yen against the greenback was largely explained by the expected path of interest rates. The Bank of Canada has been the most dovish of the three central banks amid sluggish economic activity, leading to the loonie's weak performance. The Bank of England has had to contend with higher inflation, and so may not cut rates as quickly, and investors believed the Bank of Japan's next move was more likely to be a rate hike than a rate cut. Over the one-year period, the U.S. dollar gained 3.2% against the Canadian dollar, 2.9% against the euro and 0.9% against the yen but fell 1.0% against the pound.

Global fixed-income markets experienced declines in most regions in the latest quarter, as the combination of better growth and skepticism that inflation would fall much more reduced investors' expectations for deep interest-rate cuts by central banks. As a result, the yield on the U.S. 10-year bond rose to just over 4.40% but ended the period at 4.17%, up 27 basis points from 3.90% a quarter ago. Bond losses were small, ranging from negligible in the U.S. to approaching mid-single-digits for the FTSE European Government Bond Index in U.S.-dollar terms. The decline in European bonds can be explained by the depreciation of the euro versus the greenback since yields fell along with the deteriorating economic prospects of the eurozone's largest member, Germany. Yen weakness against the dollar similarly accounted for much of the FTSE Japanese Government Bond Index's 3.5% decline. Over the 12-month period, the FTSE U.S. Government Bond Index performed best, up 6.9%, compared with declines of 5.2% for the FTSE European Government Bond Index and 4.6% for the FTSE Japanese Government Bond Index, all in U.S.-dollar terms.

Global equities continued their march higher in the latest quarter as the rally broadened to include stocks other than those of the most expensive mega-cap companies, but returns were far less exciting outside of North America. Investors flocked to U.S. stocks in particular as Trump's protectionist agenda reduced the appetite for international and emerging-market equities. U.S. and Canadian stocks outperformed with 7.2% and 6.5% gains for the S&P 500 Index and S&P/TSX Composite Index, respectively, in U.S. dollars. European equity returns were especially poor as economic struggles led to a 7.1% decline for the MSCI Europe Index. France was the worst performer as the volatile political situation contributed to the MSCI France Index's 9.1% loss. Stocks delivered attractive returns over the one-year period, ranging from a 9.6% return in U.S. dollars for the MSCI Europe to 33.9% for the S&P 500, excluding the MSCI France's 1.0% decline. Returns in most overseas market were in the low to mid-teens while U.S. and Canadian indexes gained between 24% and 36%.

Stocks of U.S. companies of all market capitalizations had remarkable returns in the latest quarter, led by the mid-cap S&P 400, whose 9.3% jump slightly outperformed the large-cap index's 7.2% gain. Both the Russell 3000 Growth Index and the Russell 3000 Value Index recorded gains in the high single digits, with the growth index outpacing the value index by 2.5 percentage points. Consumer Discretionary, up 11.8%, was the top performing sector over the three months as consumers felt more confident and continued to spend. Health Care was the worst performing sector, registering an 8.5% loss amid weaker earnings prospects. Over the 12-month time frame, Financials was the best performing sector with a 40.1% return, followed by the Information Technology and Communication Services sectors which gained just above 37%, while Materials ranked last with a 10.1% gain.

Exchange rates

Periods ending November 30, 2024

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.4002	3.90	5.67	3.18	3.10	1.06
USD–EUR	0.9449	4.45	4.31	2.85	2.33	0.81
USD–GBP	0.7846	3.04	0.00	(0.95)	1.43	0.29
USD–JPY	149.6400	2.36	6.13	0.93	9.80	6.45

Canada fixed income markets

Periods ending November 30, 2024

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE Canada Univ. Bond Index TR	(1.28)	(0.68)	5.20	(2.84)	(0.37)	2.57	8.55	0.18

U.S. fixed income markets

Periods ending November 30, 2024

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE U.S. Government TR	(0.14)	2.96	6.94	(2.03)	(0.02)	3.75	10.28	0.99
BBg U.S. Agg. Bond Index TR[1]	(0.13)	2.93	6.88	(1.95)	(0.01)	3.76	10.22	1.07

Global fixed income markets

Periods ending November 30, 2024

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE WGBI TR	(1.26)	0.69	4.92	(3.97)	(1.58)	2.58	8.21	(1.01)
FTSE European Government TR	(4.24)	(10.08)	(5.19)	(14.24)	(8.02)	(0.51)	(2.18)	(12.62)
FTSE Japanese Government TR	(3.51)	(9.74)	(4.58)	(12.85)	(8.75)	0.25	(1.54)	(11.23)

Canada equity markets

Periods ending November 30, 2024

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P/TSX Composite	6.51	19.02	26.66	7.56	10.75	10.66	30.69	10.90
S&P/TSX 60	6.53	18.53	26.31	7.48	11.02	10.68	30.33	10.82
S&P/TSX Small Cap	4.02	16.29	23.57	2.56	9.65	8.07	27.50	5.74

U.S. equity markets

Periods ending November 30, 2024

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P 500 TR	7.15	28.07	33.89	11.44	15.77	11.32	38.08	14.88
S&P 400 TR	9.29	22.67	33.36	9.27	12.60	13.55	37.54	12.63
S&P 600 TR	8.93	18.09	33.20	6.32	10.82	13.17	37.44	7.79
Russell 3000 Value TR	6.74	22.44	29.70	10.13	10.77	10.90	33.77	13.51
Russell 3000 Growth TR	9.29	31.87	38.16	10.50	18.84	13.54	42.48	13.89
NASDAQ Composite Index TR	8.68	28.86	36.05	8.20	18.20	12.91	40.31	11.54

Note: All rates of return presented for periods longer than 1 year are annualized. [1] Bloomberg U.S. Agg. Bond Index TR. Source: RBC GAM

Global equity markets
Periods ending November 30, 2024

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	4.39	21.85	27.83	8.79	12.42	8.45	32.00	12.01
MSCI EAFE TR *	(5.11)	6.24	11.88	4.15	5.89	(1.42)	15.54	7.23
MSCI Europe TR *	(7.12)	4.34	9.55	4.24	6.23	(3.51)	13.13	7.33
MSCI Pacific TR *	(1.49)	9.38	15.82	3.92	5.18	2.34	19.60	7.00
MSCI UK TR *	(3.93)	10.58	15.58	8.81	6.02	(0.20)	19.36	12.03
MSCI France TR *	(9.13)	(5.41)	(1.02)	2.14	4.97	(5.60)	2.22	5.16
MSCI Germany TR *	(1.19)	11.35	16.25	3.94	4.95	2.65	20.05	7.01
MSCI Japan TR *	(3.82)	8.68	13.43	3.56	5.32	(0.08)	17.13	6.63
MSCI Emerging Markets TR *	(1.73)	7.65	11.86	(1.27)	3.20	2.09	15.52	1.66

Global equity sectors
Periods ending November 30, 2024

	USD					CAD		
Sector: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	1.79	11.22	11.17	20.03	10.99	5.74	14.80	23.59
Materials TR *	(2.15)	2.97	10.07	4.18	8.91	1.66	13.67	7.26
Industrials TR *	4.58	20.28	29.39	10.68	11.08	8.65	33.62	13.95
Consumer discretionary TR *	11.79	18.79	25.10	2.42	12.14	16.14	29.19	5.45
Consumer staples TR *	(1.31)	10.45	13.42	4.78	5.71	2.53	17.13	7.89
Health care TR *	(8.47)	7.68	12.45	4.30	8.25	(4.91)	16.12	7.39
Financials TR *	9.88	32.30	40.14	12.91	12.05	14.15	44.71	16.25
Information technology TR *	6.13	31.89	37.53	12.80	22.16	10.25	42.03	16.14
Communication services TR*	8.78	30.92	37.14	7.00	11.50	13.01	41.63	10.17
Utilities TR *	4.25	21.50	25.10	7.95	6.78	8.30	29.19	11.15
Real estate TR *	1.89	10.86	20.47	(0.54)	2.44	5.86	24.41	2.40

* Net of taxes. Note: all rates of return presented for periods longer than 1 year are annualized. Source: Bloomberg/MSCI

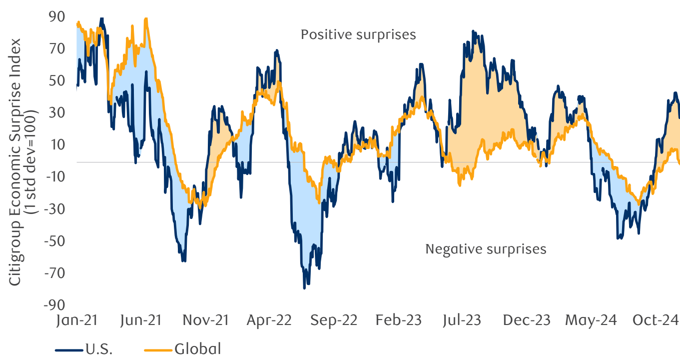
Economic outlook
Surveying the post-election landscape

Eric Lascelles
Managing Director & Chief Economist
RBC Global Asset Management Inc.

It is a time of transition for the global economy. Inflation is no longer the dominant concern, having descended to the point that central banks are now able to remove the monetary restraints that they introduced in 2022 and 2023. When ameliorating inflation is combined with economic growth that is now seemingly reviving after a period of weakness (Exhibit 1), the risk of a recession in the year ahead has declined substantially.

A major event risk has also been resolved in the form of the U.S. election, which yielded a Republican victory not merely in the race for the White House but also in Congress. The question that remains is the degree to which President-elect Trump's unorthodox campaign ideas will be translated into action. We assume that his proposed tariff and immigration policies will be significantly tempered, which then allows for the growth-enhancing effects of tax cuts, deregulation and rising animal spirits to dominate, moderately boosting the near-term U.S. growth outlook.

Exhibit 1: Economic surprises rebounded from negative readings



Note: As of 12/02/2024. Source: Citigroup, Bloomberg, RBC GAM

From a market perspective, we maintain a neutral asset mix. This attempts to balance the theoretically superior return potential in the stock market with the fact that U.S. equity valuations are now elevated after an impressive rally. Simultaneously, the bond market offers not just reasonably attractive returns in its own right, but helpful ballast for the broader investment portfolio.

Election aftermath

After one of the most memorable election campaigns in history – one that included a mid-stream change in the Democratic Party's candidate and betting markets that gyrated between the two candidates – the election ultimately resolved with a victory for Donald Trump, the Republican

nominee and former president. Congress also tilted to the right, handing majorities to the Republican Party in both chambers.

Naturally, the resolution of the race reduces the scale of U.S. policy uncertainty. However, questions remain regarding the extent to which Trump will deliver on his unorthodox campaign proposals.

For our part, we budget for a significant reduction in U.S. immigration and an increase in the outflow of undocumented residents, but nothing approaching the full removal of the country's 11 million-15 million undocumented residents.

Similarly, we expect additional tariffs, but not the full 60% tariff on China and 10% blanket tariff on the rest of the world that Trump has threatened. These are instead best interpreted as the opening offer from the U.S., with scope for affected countries to negotiate their particular exposure downward via concessions elsewhere. Areas of potential concessions include other countries' trade barriers, border security, alignment with the U.S. on key international issues and military budgets.

Some economic drag should nevertheless result from U.S. immigration and trade policy, but we still budget for slightly faster growth in the near-term under a Trump presidency. The extra growth comes from deregulation, additional domestic oil production, anticipated tax cuts (and the avoidance of tax rates that are currently scheduled to leap higher at the end of 2025) and an already-visible revival of animal spirits (Exhibit 2).

This advantage is then assumed to fade somewhat over the medium run as the cost of servicing additional debt mounts (part of the faster growth in the short run is presumed to be deficit-financed) and as the tailwind from other actions such as deregulation, tax cuts and animal spirits begins to slacken.

Why do we expect a moderation in some of the more damaging Trump policy ideas? His Congressional majority is fairly small, limiting some unconventional actions. Trump famously used the stock market as a yardstick for the success of his first-term presidency and so is unlikely to take actions that significantly undermine the health of the economy. Similarly, his administration is flanked by a significant number of business executives who will similarly endeavour

Exhibit 2: Macro implications from U.S. election

Trump policy expectations

Policy	Short-term economy	Medium-term economy	Inflation (*+ is higher*)	Equities	Bond yields
Overall effect	+	neutral	+	+ +	+
Tariffs	– –	–	+ +	– –	+
Immigration	– –	– –	neutral	–	neutral
Regulations	+ +	+	neutral	+ + +	neutral
Oil policy	+	+	–	+	–
Taxes	+ +	+	+	+ + +	+
Animal spirits	+ +	+	+	+ +	+
Gov't spending	–	neutral	–	neutral	neutral
Debt servicing	n/a	–	n/a	–	+

Additional thoughts

- Uncertainty is reduced but still substantial
- Republican sweep increases scope for action
- Don't expect most extreme version of ideas to be enacted
- Steadying guidance to come from C-suite advisors, SP500, yields
- Trump victory is probably negative for rest of world growth

Note: Estimated impacts using updated assumption of Republican sweep as at 11/06/2024. +/- indicate positive/negative impact on variable at top of column. Source: RBC GAM

to steer White House policy away from bad economic outcomes. More generally, Trump had similar tariff and anti-immigration plans during his first term, yet the outcomes were more moderate, with the economy growing and the stock market rising.

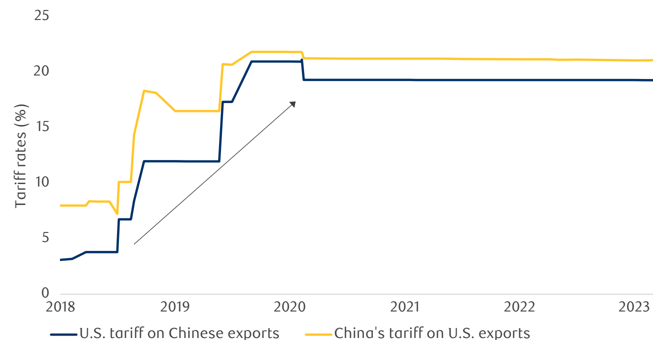
While the U.S. economy may be in a position to grow somewhat more quickly in the short run, the rest of the world faces the opposite prospect. Higher tariffs – even if tempered – should hurt growth. The potential impact is most visible in two sets of countries: those, like China and Mexico that may be targeted disproportionately (Exhibit 3); and those, like Mexico, Vietnam and Canada that have an enormous trade connection with the U.S. (Exhibit 4).

U.S. tax cuts and deregulation also render other countries comparatively less competitive. Greater geopolitical uncertainty (with some countries forced to reallocate government spending toward their militaries) also challenges rest-of-world growth. The overall effect is unlikely to be huge, with most countries experiencing less than a half-percentage-point hit to their 2025 growth outlook.

The Trump win should also be moderately inflationary. Higher tariffs constitute a tax that partially lands on consumers, increasing prices. The prospect of faster economic growth than otherwise is also incrementally inflationary. Conversely, looser oil policy is theoretically deflationary, with the price of oil potentially $3-$4 per barrel cheaper than otherwise as U.S. drillers ramp up. Overall, we budget for a bit more inflation and have upgraded our U.S. inflation outlook for 2025 by about a third of a percentage point. The effect would have been larger, but the Fed now has cause to cut by slightly less, which provides a partial offset.

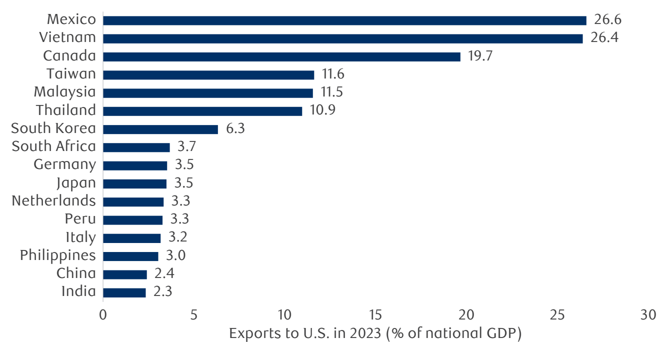
The so-called "Trump trade" is a stronger stock market, higher bond yields and a mightier U.S. dollar. This is precisely how markets have responded since election night. The prospect of deregulation plus tax cuts is like catnip for the stock market. Bond yields have increased due to the prospect of more short-term growth, higher inflation and possibly more public debt. The dollar rises in part on growth prospects, in part because the Fed is now in a position to cut less decisively than other central banks, and in part because a country imposing tariffs tends to experience a compensatory increase in its exchange rate.

Exhibit 3: U.S.-China tariff rates rose under first Trump administration



Note: As of 04/01/2023. Source: PIIE, RBC GAM

Exhibit 4: Exports to U.S. are significant for some countries



Source: IMF, Macrobond, RBC GAM

> "Higher tariffs constitute a tax that partially lands on consumers, increasing prices."

Stabilizing growth

After years of fretting about economic growth in the face of high inflation and then high interest rates, followed by a particularly concerning slump in the summer of 2024 when it had tentatively appeared that growth might finally be stalling out, the economy has seemingly stabilized in recent months.

Supporting this rosier impression, economic surprises have bounced from negative to positive, and economic news is about as positive as it has been at any point since the pandemic (Exhibit 5). Global purchasing managers' indices are admittedly softer (Exhibit 6), reflecting a chronically lagging manufacturing sector and U.S. exceptionalism (the U.S. economy is again materially outperforming its peers). But even purchasing managers' indices aren't any worse than at other points over the past few years.

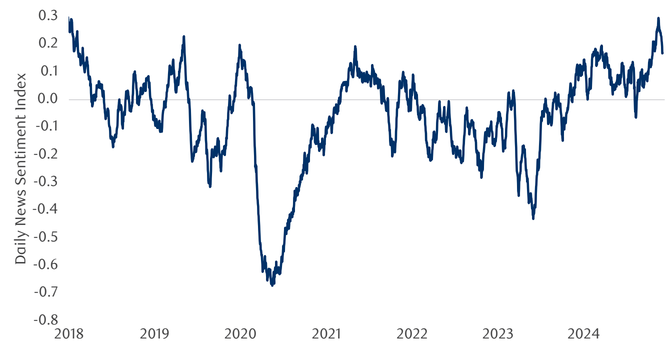
Given that economies showed sufficient buoyancy to avoid recession even when interest rate and inflation headwinds were blowing fiercely, it is entirely reasonable to anticipate further growth in the quarters ahead now that inflation has decelerated and central banks are cutting rates.

The consumer outlook is decent. After a period of pain from high interest rates that has pushed household loan-delinquency rates higher (Exhibit 7), we believe there is scope for a gradual pickup in spending growth starting within the next year as the burden of servicing debt declines. Consumer confidence appears to be improving, unemployment has stabilized at a relatively low level and wage growth remains solid. Outside of the U.S., household-savings rates are elevated, pointing to the potential for spending growth to outpace income growth in the years ahead.

The outlook for capital expenditures is pretty good, especially in the U.S.: spending on artificial intelligence and other new technologies is likely to remain robust, and in the U.S. the combination of lower taxes, deregulation and optimistic businesses is likely to support such activity.

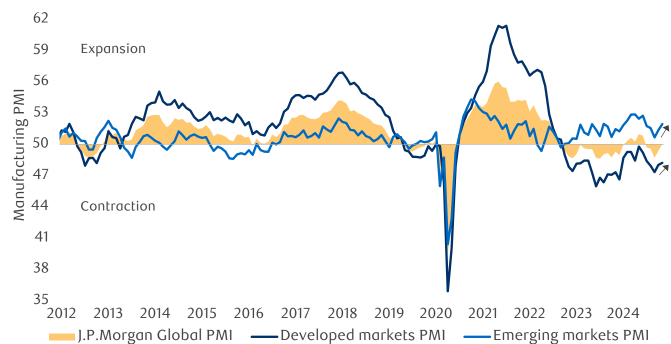
The U.S. economy continues to grapple with hurricane-related distortions in the October and November data, but by all appearances growth is healthy once those factors are accounted for.

Exhibit 5: U.S. economic news sentiment has been upbeat



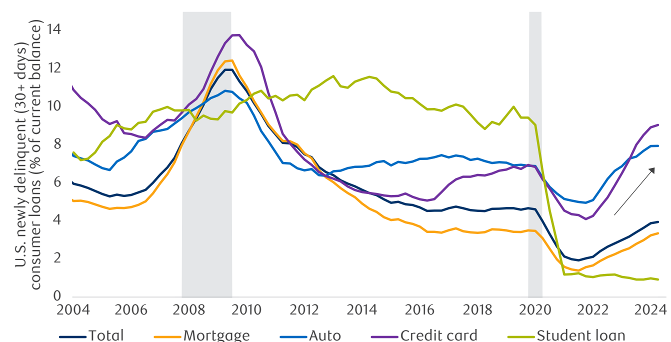
Note: As of 12/01/2024. Source: Federal Reserve Bank of San Francisco, Macrobond, RBC GAM

Exhibit 6: Global PMI reviving tentatively



Note: As of Nov 2024. PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM

Exhibit 7: U.S. consumer loan delinquency has been rising



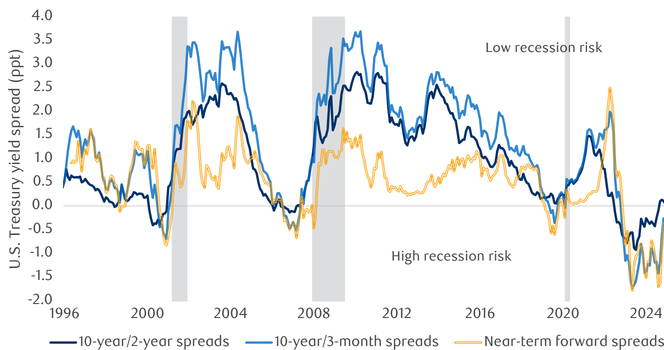
Note: As of Q3 2024. Shaded area represents recession. Source: FRBNY, Macrobond, RBC GAM

We continue to monitor the risk of a recession, but this appears to have declined further, such that there is just a 25% risk in the U.S. over the next year. A soft landing is by far the most likely outcome. The risk of recession is less trivial outside of the U.S. given more muted growth and fewer fiscal tailwinds.

A few recession signals admittedly still blink red for the U.S., including inverted yield curves that have historically presaged trouble (Exhibit 8). But we believe these are less sinister than they first look as interest rates are merely descending from high to normal levels, rather than from normal to low levels as often occurs in the build-up to a recession. Unemployment rates have also increased – another classic recession signal – but these now look to have stabilized in defiance of the usual uninterrupted upward trajectory into a recession.

Conversely, quite a number of recession indicators that previously signaled danger have normalized (Exhibit 9). This includes lending standards that are now easing (Exhibit 10). On aggregate, the risk of recession has declined and further economic growth appears likely.

Exhibit 8: Yield spreads rising across all three measures



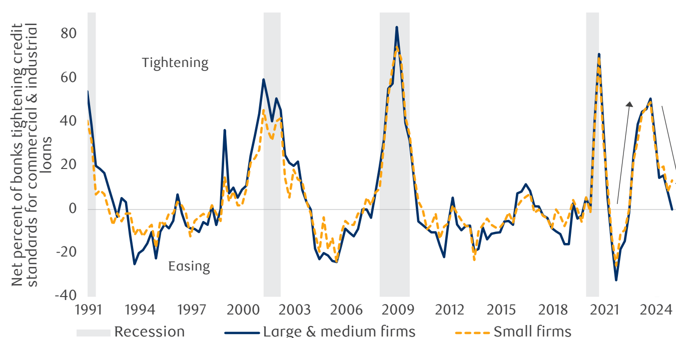
Note: As of 12/05/2024. Near-term forward spread measured as forward rate of 3-month Treasury bill six quarters from now minus spot 3-month Treasury yield. Shaded area represents recession. Source: Engstrom and Sharpe (2018), FEDS Notes, Washington: Board of Governors of the Federal Reserve System; Bloomberg; Haver Analytics; RBC GAM

Exhibit 9: Recession risk declining, but still higher than normal

Signal	Predicting U.S. recession?
2yr-10yr curve inverted / bull rallies out of inversion	Yes
3m-10yr curve inverted / bull rallies out of inversion	Yes
Fed short-term curve inverted / bull rallies out of inversion	Yes
Conference Board leading indicator falling	Yes
Unemployment increase	Yes
RBC GAM recession model	Maybe
Google "recession" news trend	Maybe
Inflation spike	Maybe
Monetary tightening cycle	Maybe
Jobless claims jump	No
Duncan leading indicator falls	No
Volume of global trade falls	No
S&P 500 profit margins fall	No
Lending standards tighten	No
Oil price spike	No

Note: As at 11/01/2024. Analysis for U.S. economy. Source: RBC GAM

Exhibit 10: U.S. business lending standards are reversing helpfully



Note: October 2024 Senior Loan Officer Opinion Survey on Bank Lending Practices. Source: Federal Reserve Board, Macrobond, RBC GAM

> "On aggregate, the risk of recession has declined and further economic growth appears likely."

One source of fresh concern is that long-term bond yields have lately risen, undermining some of the benefit of central-bank rate cuts. But short-term borrowing is still considerably cheaper than it was, long-term borrowing is still less expensive than it was at its peak, and overall financial conditions are only slightly tighter than a few months ago, and remain materially improved over the past few years (Exhibit 11).

Diverging forecasts

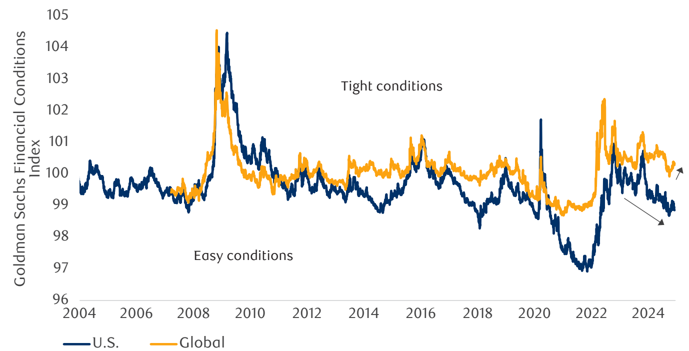
Our GDP forecasts continue to anticipate further economic growth, mostly at a modest to moderate clip over the first half of 2025 before the pace picks up somewhat later in the year. Beyond this common theme, however, forecasts have diverged somewhat along geographic lines. The U.S. growth outlook for 2025 has improved over the past quarter, from 1.7% to 2.3%. In contrast, other developed-world forecasts are mostly flat to lower, and their expected growth rates remain slower than the U.S. (Exhibit 12).

Some of this international gap is structural, reflecting lower economic speed limits outside of the U.S. due to a combination of more challenging demographics and structurally slower productivity growth. But the U.S. is also disproportionately buoyed by an expected boost from the fiscal arena. This advantage could start to shrink after 2025.

European growth appears set to remain unusually bifurcated, with southern countries such as Spain, Italy and Greece in a position to continue outpacing northern ones such as Germany. While Germany has failed to reliably grow over the past few years (Exhibit 13) and faces challenges competing with China's high-value industrial outputs, Germany's unemployment rate is only a percentage point higher than the post-pandemic low. The level of suffering in the economy therefore cannot be said to be unbearably high. It has been a similar situation in other countries that have sputtered in recent years: while certainly undesirable, the level of pain has not been in line with traditional recessions.

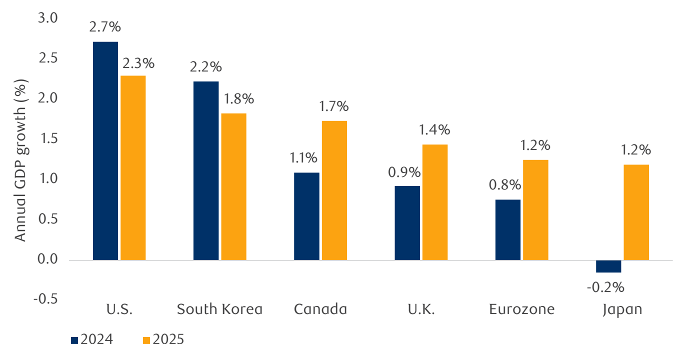
The U.S. growth forecast is somewhat ahead of the consensus, while most other developed nations hover around the consensus. Still, rest-of-world growth is on track to accelerate slightly in 2025 versus 2024 as the pain of high interest rates fades. The UK is in a position to grow somewhat more quickly in 2025, in part due to lower rates and partially

Exhibit 11: Financial conditions eased, but slight uptick lately



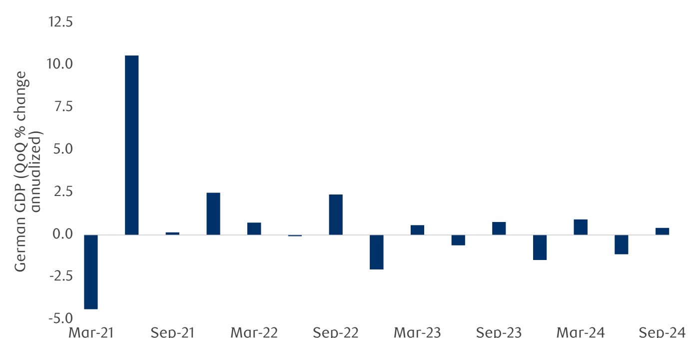
Note: As of 12/02/2024. Source: Goldman Sachs, Bloomberg, RBC GAM

Exhibit 12: RBC GAM GDP forecast for developed markets



Note: As of 11/06/2024. Source: RBC GAM

Exhibit 13: Germany's economy teetering on the brink of recession



Note: As of Q3 2024. Source: Statistisches Bundesamt, Macrobond, RBC GAM

as the government delivers additional fiscal support (Exhibit 14).

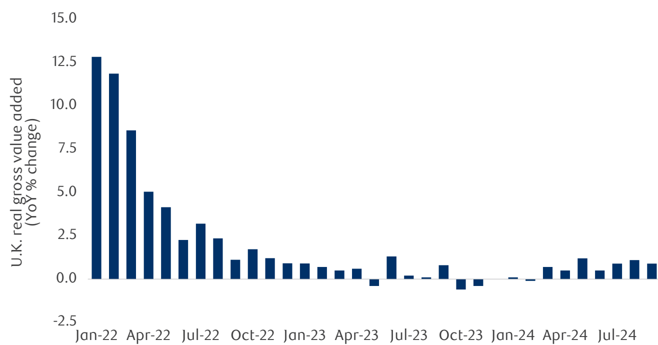
For emerging markets, aggregate economic growth may slow by a hair in 2025 relative to 2024 (Exhibit 15). Chinese growth is set to decline from 4.6% in 2024 to 4.3% in 2025. India could buck that trend, accelerating slightly from a relatively subdued 6.7% in 2024 to 6.9% in 2025.

Inconsistently declining inflation

The key point about inflation is that it is now much lower than the startling heights that were reached a few years ago (Exhibit 16). In turn, it is no longer the world's primary economic problem.

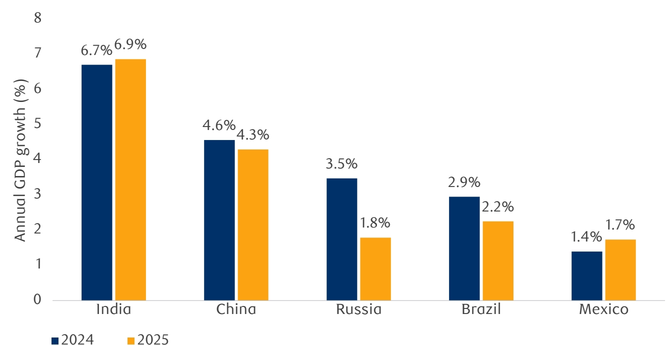
Still, inflation isn't quite all the way back to normal, and its downward path has been somewhat less consistent in recent months (Exhibit 17). The upcoming Trump administration introduces additional inflation pressures via tariffs and faster growth that oblige us to raise our U.S. inflation forecast for 2025 from 2.3% to 2.6%. This nevertheless leaves it a bit lower than the average rate in 2024, supported in part by a lagged decline in shelter inflation and in part by a less dovish Fed.

Exhibit 14: U.K. economy back to growth, albeit modest



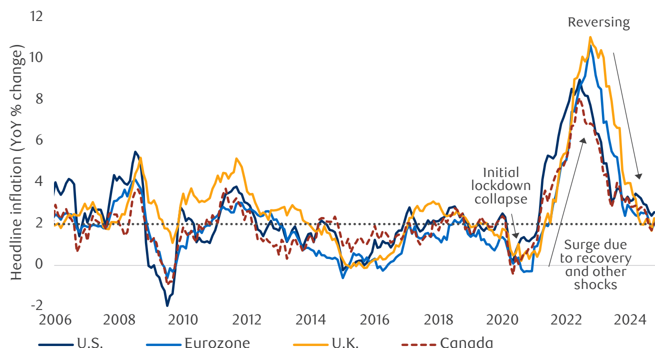
Note: As of Sep 2024. Source: U.K. ONS, Macrobond, RBC GAM

Exhibit 15: RBC GAM GDP forecast for emerging markets



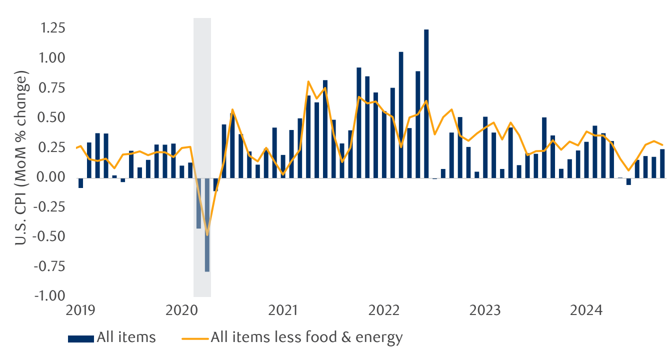
Note: As of 11/06/2024. Source: RBC GAM

Exhibit 16: Inflation has massively improved, but not quite normalized



Note: Canada, U.K., and U.S. as of Oct 2024, Eurozone as of Nov 2024. Source: Bureau of Labor Statistics, Office for National Statistics, Statistics Canada, Statistical Office of the European Communities, Macrobond, RBC GAM

Exhibit 17: Path to 2% inflation has been bumpy



Note: As of Oct 2024. Shaded area represents recession. Source: BLS, Macrobond, RBC GAM

The inflation challenges are less acute in other countries, and we have greater confidence in inflation continuing to converge upon target in most of those markets (Exhibit 18). Fundamentally, economies are less overheated than they were a few years ago, wage growth has moderated and corporate pricing plans are less aggressive (Exhibit 19). It makes sense for inflation to continue descending.

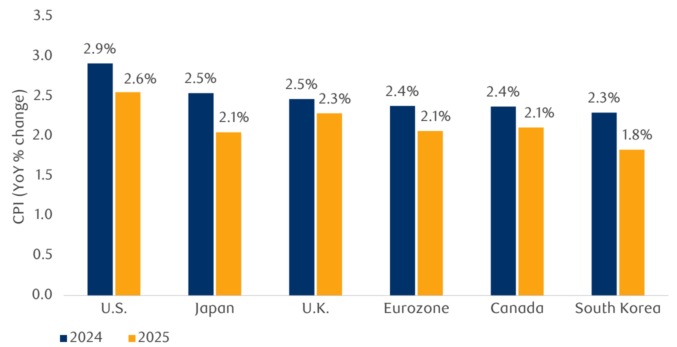
Decelerating rate cuts

The most profound new economic tailwind – or more technically, the removal of a prior economic headwind – is that central banks are beginning to unwind the enormous amount of monetary tightening they delivered in 2022 and 2023 (Exhibit 20). All major developed-world parties other than the Bank of Japan have now begun the journey toward lower rates, including the late-arriving U.S. which managed a splashy 50-basis-point inaugural cut in September, followed by a further 25-basis-point rate cut in November.

Central banks are still in a position to ease further, but with slightly less speed than what was delivered over the fall. This is in part because policy rates are no longer as restrictive as they were, reducing the urgency of further cuts. Equally relevant, the aforementioned inflation has not come in quite as soft in recent months, with U.S. inflation in particular now on a slightly higher trajectory.

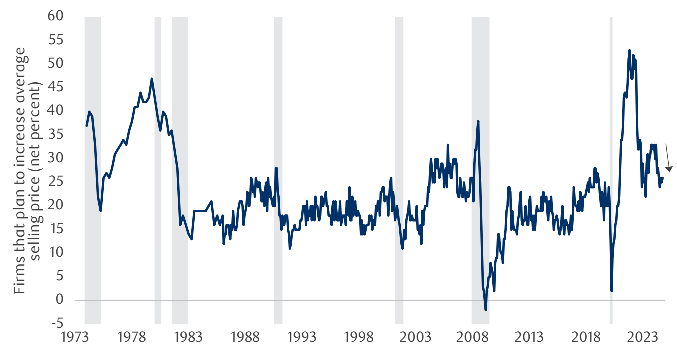
The takeaway is that the Fed can likely still inch its way down to around a 3.5% policy rate by the end of 2025, but this is higher than the 2.8% endpoint imagined by markets as recently as September. Other developed economies have lower neutral rates, meaning their policy rates are capable of descending into the 2%-3% range.

Exhibit 18: RBC GAM CPI forecast for developed markets



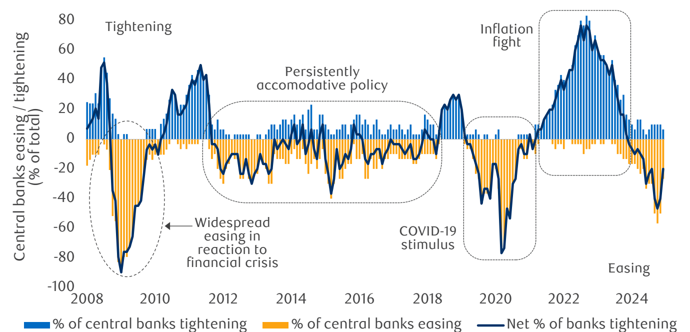
Note: As of 11/06/2024. Source: RBC GAM

Exhibit 19: Fraction of U.S. businesses planning to raise prices approaching pre-pandemic levels



Note: As of Oct 2024. Shaded area represents recession. Source: NFIB Small Business Economic Survey, Macrobond, RBC GAM

Exhibit 20: Central bank rate cutting is tentatively slowing



Note: As of 12/02/2024. Based on policy rates for 30 countries. Source: Haver Analytics, RBC GAM

Chinese stimulus in focus

The Chinese economy has decelerated markedly in recent years due to a mix of worsening demographics, a housing bust, renewed skepticism of the private sector, and geopolitical frictions with the U.S. China is nevertheless on track for 4%-5% growth this year and next thanks to resilient exports (Exhibit 21), but it will probably then decelerate to 3%-4% on a steady-state basis thereafter. This is disappointing for a country that once managed 6%-10% growth, but the new growth profile is still superior to that regularly achieved by developed-world nations.

Given a shrinking population, even that diminished economic clip translates into pretty robust productivity growth, and so China can still be said to be tracking the Japanese and South Korean path toward rich-country status.

It is tempting to think that China will be hit quite hard by U.S. tariffs, and indeed the country is the main target. But a few things should temper the extent of any damage.

A key factor is that only 2% of Chinese output is exported directly to the U.S. If that sounds low, recall that large countries are always primarily oriented toward their domestic market, and that China also has deep trade ties with the rest of Asia, South America, Europe, Africa and Australasia. China is less beholden to U.S. demand than commonly imagined.

China also has space to deliver more economic stimulus. We expect actions that include further rate cuts, support for the property market and local governments, and inducements for additional consumer spending. The country may be delaying some of this support until there is greater clarity around how the U.S. will hit China, and then respond with force in the new year.

Assorted risks

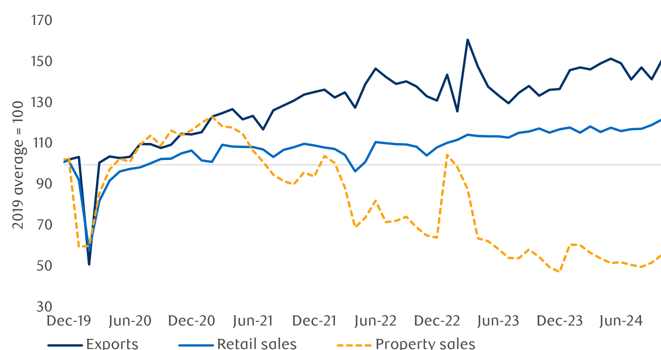
Naturally, there are a variety of risks to our base case outlook. It is the very nature of macroeconomic risks that these tilt more negatively than positively.

Quite a number of the most prominent uncertainties relate to the path forward for U.S. public policy. We have already articulated our view that the economic policies unleashed in certain critical areas will be tempered relative to the campaign rhetoric. But this is far from certain.

If U.S. public policy is instead delivered with greater fealty to the Trump campaign's platform, one might imagine materially less economic growth due to a significant drag from large tariffs and a sharply declining U.S. population, and potentially significantly higher inflation due to those same tariffs and the loss of inexpensive undocumented workers. The rest of the world would also be adversely affected by higher tariffs and less U.S. growth leadership.

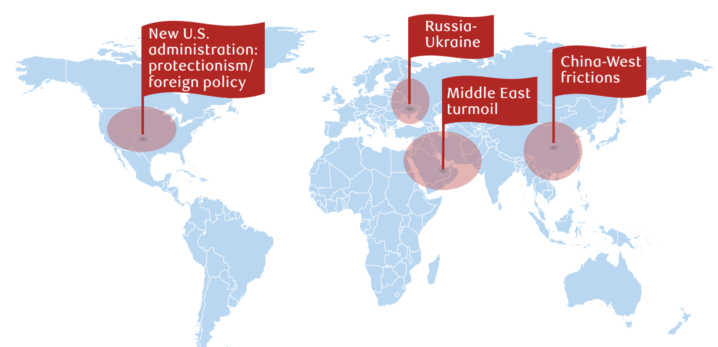
There are also large questions around potential changes to American foreign policy. The outlook for the war in Ukraine, conflict in the Middle East and Chinese frictions with the West are all in play (Exhibit 22). The likelihood of a Ukraine-Russia

Exhibit 21: Exports remain the bright spot in China's growth



Note: As of Oct 2024. Average of 2019 levels indexed to 100. Source: Haver Analytics, RBC GAM

Exhibit 22: Geopolitical inflation risks abound – watch oil, supply chains and tariffs



Note: As at 11/15/2024. Source: RBC GAM

cease-fire has arguably increased, albeit with the potential for significant Ukrainian territory to be ceded to Russia. Both parties are now battling with an increased intensity as they seek to crystalize favourable borders. An alternate scenario is that the war continues but with Europe replacing the U.S. as Ukraine's main benefactor, with uncertain effectiveness. The price of oil, agricultural prices and the availability of natural gas to Europe are all in play.

There is a risk that the conflict in the Middle East intensifies given Trump's greater historical antagonism toward Iran, with conceivable ramifications for the price of oil (Exhibit 23). Conversely, his isolationist instincts cannot be ignored.

A third category of U.S. political risk is that our base case assumption of moderate policies is delivered, but the economy accelerates more than expected in response, preventing inflation from settling and stopping the Fed from cutting rates much (or at all) further. In an extreme form of the scenario, rate hikes might even be necessary.

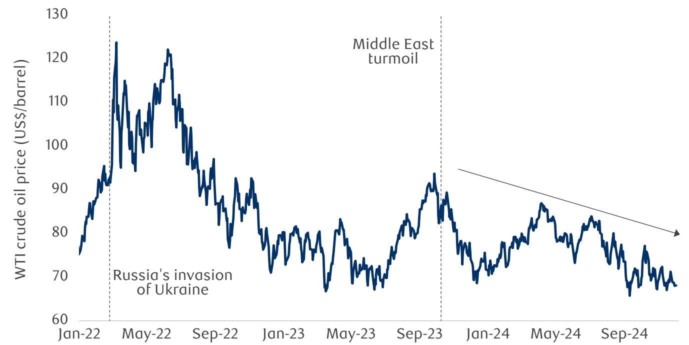
Outside the U.S., a major global risk involves China's slow-motion housing bust – specifically, the possibility that the government ultimately fails to contain the fallout across a network of interconnected parties including builders, homeowners, local governments and Chinese banks. A major blow to Chinese economic growth and financial stability would reverberate around the world given that the country generates nearly a quarter of global growth (Exhibit 24).

Peak Canadian pessimism

The Bank of Canada has been cutting rates with greater ardor than its peers (Exhibit 25), enabled by an inflation rate that has already descended to the country's 2.0% target, an underwhelming economic performance where the unemployment rate has risen by nearly 2 percentage points, and spurred by the large numbers of Canadian households with five-year mortgages that will roll into sharply higher interest rates in 2025 and 2026.

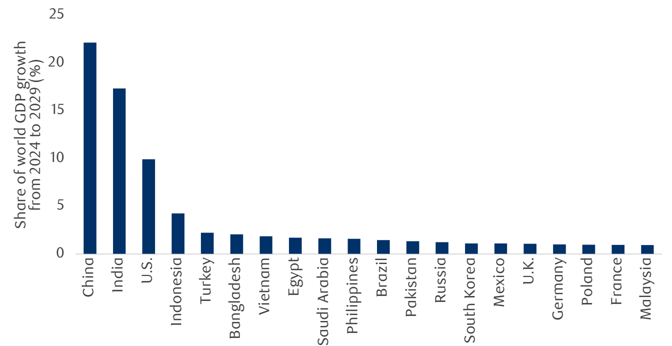
Fortunately, the Canadian outlook is not all negative, and indeed we posit that that attitudes toward the country could begin to improve from their current pessimistic stance over the year ahead. Declining interest rates should be particularly beneficial to a country that is so interest-rate sensitive. An election in the new year could install a more growth-oriented

Exhibit 23: Oil prices are soft, but risk of geopolitical flare-up



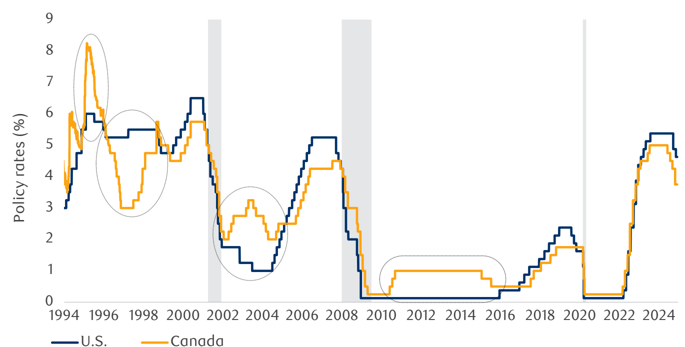
Note: As of 12/02/2024. Source: Macrobond, RBC GAM

Exhibit 24: China to remain the top driver of world growth



Note: Based on IMF forecast from 2025 to 2029. Source: IMF World Economic Outlook, Oct 2024, Macrobond, RBC GAM

Exhibit 25: North American monetary policy now in easing mode



Note: As of 12/02/2024. Shaded area represents U.S. recession. Source: Macrobond, RBC GAM

government. Any tariffs applied by the U.S. against Canada are likely to be quite limited. Business attitudes are starting to become less negative (Exhibit 26). A housing shortage should begin to prompt additional construction, even if poor housing affordability will constrain buyer enthusiasm for some time (Exhibit 27). The elevated household savings rate leaves room for stronger spending growth once the burden of high interest rates starts to fade.

The key Canadian question is how anticipated reversals in population growth and productivity growth will interact. Population growth is set to slow sharply due to tightening immigration rules after an unprecedented surge in recent years (Exhibit 28) – a potentially serious drag on economic growth. In contrast, productivity has been unbelievably weak in recent years, in part due to the indigestion created by the outsized immigration. The demographic reversal should thus allow for some revival in productivity, but it is impossible to say whether productivity will normalize at the precise moment that immigration eases. As such, the quarter-to-quarter growth across 2025 may be unusually choppy as the retreat in one key variable and the revival of another fail to synchronize perfectly.

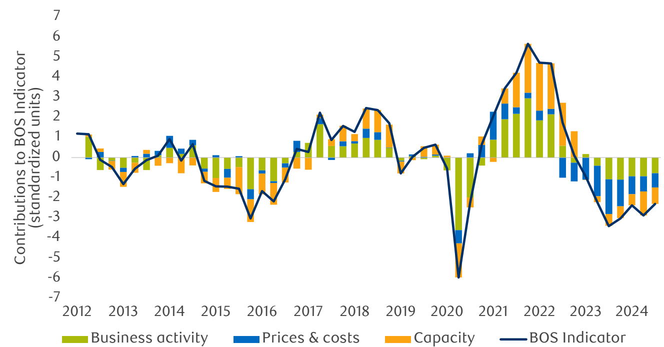
Bottom line

Priorities are shifting for the global economy. Worries have diminished about excessive inflation and the prospect of a recession, and greater clarity has been achieved about the downward path for monetary policy. Now questions about the outlook for U.S. public policy dominate.

Much will be revealed in the coming months, but we mostly budget for a more moderate set of economic policies under Trump than those articulated on the campaign trail. The result will likely be that the U.S. economy can grow a little more quickly in the short run, that inflation runs a bit hotter than otherwise (while still edging lower), and that the rest of the world lives with slightly less growth than otherwise.

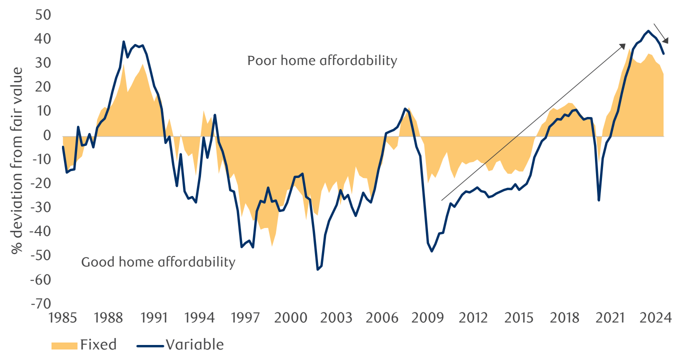
From a market standpoint, a neutral asset mix remains appropriate given reasonably attractive bond yields paired with conflicting stock market signals that include the prospect of solid economic growth (favourable) and high market valuations (unfavourable, at least for the U.S.).

Exhibit 26: Canadian Business Outlook Survey Indicator has become less negative



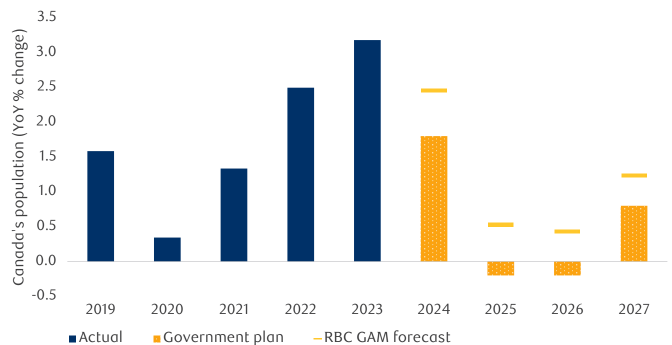
Note: As of Q3 2024. Source: Bank of Canada Business Outlook Survey, Macrobond, RBC GAM

Exhibit 27: Canadian housing affordability is very poor but improving



Note: As of Q3 2024. Current carrying cost of a home versus the historical norm. Source: CREA, Statistics Canada, Haver Analytics, RBC GAM

Exhibit 28: Canadian population growth to slow with reduced immigration targets



Note: As of 10/28/2024. Government plan estimated based on federal government 2025–2027 Immigration Levels Plans released on 10/24/2024. Source: Statistics Canada, Macrobond, RBC GAM

Market outlook
Trump victory revives animal spirits

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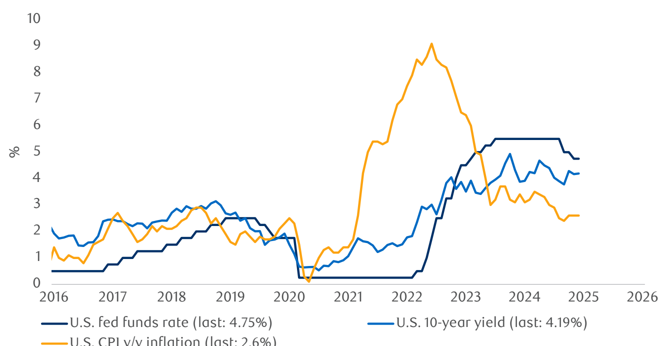
A variety of macroeconomic challenges have faded and investors have become increasingly confident in the outlook. The most prominent development is that inflation has cooled, allowing central banks to start cutting interest rates and capping one of the worst-ever bear markets in bonds (Exhibit 1). Stocks encountered periods of volatility but ultimately delivered impressive returns as investors embraced the increasing likelihood of a soft landing and received a further boost from Donald Trump's election win, which could signal more growth, lower taxes and less regulation (Exhibit 2). Fanned by the easing of monetary conditions, the economy should continue to move ahead in 2025. While an economic soft landing and moderating inflation should be supportive of capital markets, we are growing increasingly concerned about enthusiasm for stocks despite very high and demanding valuations in the large-cap U.S. equity market especially.

Investor confidence could be tested by a variety of risks over the year ahead including the near three-year-old war in Ukraine, armed conflicts in the Middle East and China's ebbing growth. Inflation appears to be under control, but tariffs that have been suggested by President-Elect Trump could push prices higher in the short term. Moreover, while

Exhibit 1: United States
Interest rates, bond yields and inflation



Note: As of November 30, 2024. Source: Bloomberg, RBC GAM

Exhibit 2: MSCI World Index
U.S. dollars

Note: As of November 29, 2024. MSCI World Index in U.S. dollars. Source: Bloomberg, RBC GAM

Trump proposed a large and diverse list of policies during the campaign, what actually gets implemented is almost certain to be different. This uncertain backdrop suggests a range of potential outcomes around our expected base case scenario. Investors should brace for an uptick in financial-market volatility over the next 12 months.

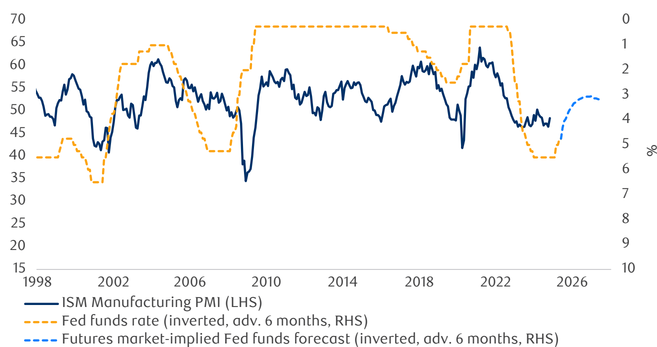
Our base case scenario envisions the global economy continuing to grow at a moderate pace in an environment of easing inflation, enabling central banks to keep dialing back short-term interest rates. In our view, bonds appear to be reasonably priced and yields are likely to trade in a range over the year ahead, providing fixed-income investors with low- to mid-single-digit returns with modest valuation risk. Stocks offer better return potential than bonds, although we are concerned that only a handful of mega-cap stocks continue to make up the bulk of the weighting and returns in the U.S. large-cap market. Should earnings gains broaden as the economy strengthens, equities are poised for a shift in leadership away from mega-cap technology stocks toward much more attractively priced sectors and themes that could breathe new life into the bull market.

We seek to balance the risks and potential opportunities in our recommended asset mix and, over the past several quarters, we have been more tactical in managing our fixed-income exposure. This quarter we added one percentage point to our fixed-income position as yields jumped above 4%, eliminating the underweight introduced in the prior quarter when yields had plunged. Currently, our asset mix is back to a neutral stance, which we believe will allow us to take advantage of volatility should it arise. Within our neutral equity allocation, we favour regions that will benefit from a pro-growth, America-centric administration – meaning a preference for North American equities and a tilt toward mid- and smaller-cap stocks. For a balanced global investor, our current recommended asset mix is 60.0% equities (strategic: "neutral": 60.0%), 38.0% bonds (strategic "neutral": 38.0%) and 2.0% cash.

Rate cuts in 2024 to boost economy in 2025

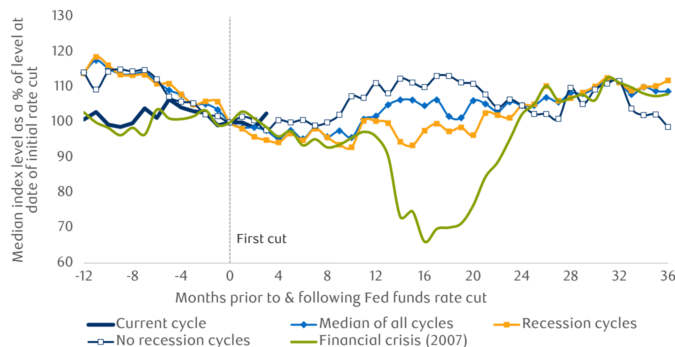
Central-bank rate cuts initiated this year are likely to boost economic activity in 2025 as growth responds to monetary-policy changes with a lag. The relationship between interest rates and the economy is evident in Exhibit 3, which plots the U.S. ISM Manufacturing Index (PMI) alongside the U.S. fed funds rate, which is inverted and advanced by six months on the chart. The rapid increase in interest rates since early 2022 (i.e. falling dashed orange line on the chart) weighed on growth and the PMI stabilized as rates stopped rising in mid-2023. Fed interest-rate relief began this past September, which in conjunction with further rate cuts, should help stoke economic activity through next year (i.e. rising light-blue dashed line on the chart). So far, the PMI is tracking what would normally be expected once rates start falling. Exhibit 4 plots a roadmap of the U.S. PMI through 16 prior periods of monetary easing where, t=0 on the chart indicates the date of

Exhibit 3: U.S. ISM Manufacturing Index & the fed funds rate – Fed funds inverted and advanced six months



Note: As of November 30, 2024. Source: Institute for Supply Management

Exhibit 4: U.S. ISM Manufacturing PMI and the fed funds rate cut – Implications for current cycle, following first rate cut



Note: As of November 30, 2024. Source: RBC GAM

the first rate cut in a cycle. Whether or not the economy is in recession, PMIs tend to begin recovering six to nine months after the first rate cut, although the improvement is more pronounced in soft landings. If the past relationship holds, the charts suggest we could see an acceleration in economic activity beginning in the spring of 2025.

Inflation expectations remain well anchored

One of the key factors determining the trajectory of interest rates is whether inflation remains on a path toward central banks' 2% objective. Significant progress has already been made, with U.S. CPI inflation having fallen to 2.7% from a peak of 9.1% in mid-2022. Economists' forecasts look for inflation to settle between 2% to 3% over the year ahead in line with our own view (Exhibit 5), but further improvement will likely be more difficult to achieve. Complicating the outlook is the possibility that prices could spike over the short term if Trump implements the tariffs he has threatened. We believe that the tariffs under discussion would have a one-time impact on inflation. To the extent that investors are able to look past the potential for short-term tariff effects, there should be little impact on longer-term inflation expectations. We can see that market-based inflation expectations so far remain anchored according to pricing in the real return bond market (Exhibit 6).

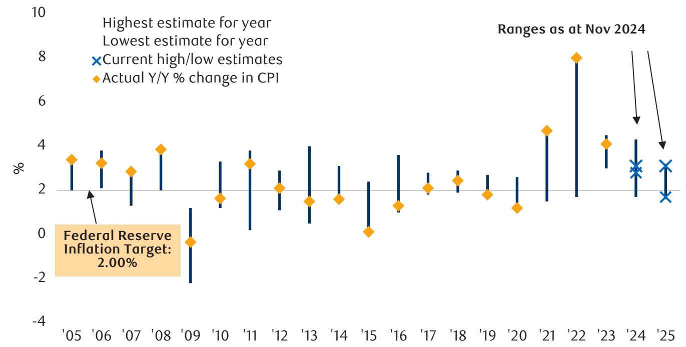
Interest rates are on a downward path, but pace of adjustment may shift

Our model for short-term interest rates suggests the fed funds rate remains in restrictive territory and has scope to fall further. The neutral interest rate - that which neither stimulates nor restricts economic growth - is near 2.0%, based on our model, but rises to 3.6% five years from now (Exhibit 7). The higher neutral rate in the model over time suggests that inflation or the real rate of interest (i.e. nominal rate - inflation), or both, will move somewhat higher, limiting scope for the fed to aggressively reduce rates, even in the near-term.

The combination of better economic data and Trump's election victory has caused investors to scale back expectations of aggressive rate cuts over the year ahead. Futures markets are pricing in between 75 basis points and 100 basis points of reductions by the end of 2025 instead of the 200 basis points in cuts that were priced in around mid-September (Exhibit 8).

Exhibit 5: United States

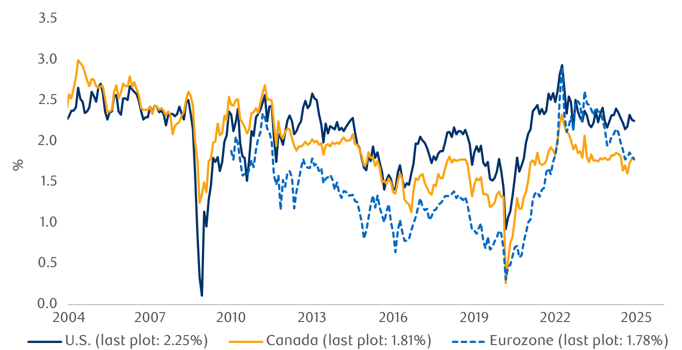
Inflation estimate dispersion



Source: Consensus Economics, RBC GAM

Exhibit 6: Implied long-term inflation premium

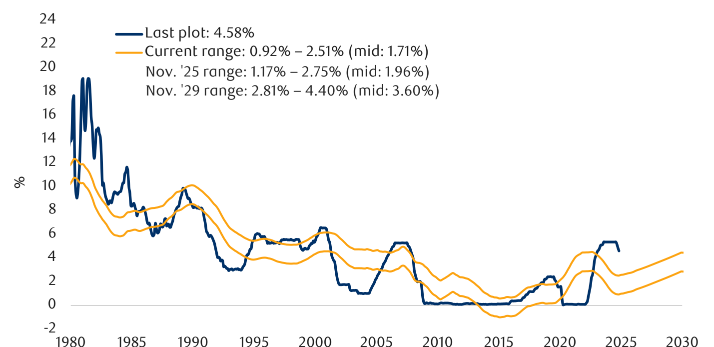
Breakeven inflation rate: nominal vs 10-year real return bond



Note: As of Nov 2024. Eurozone represents GDP-weighted breakeven inflation of Germany, France and Italy. Source: Bloomberg, RBC CM, RBC GAM

Exhibit 7: U.S. fed funds rate

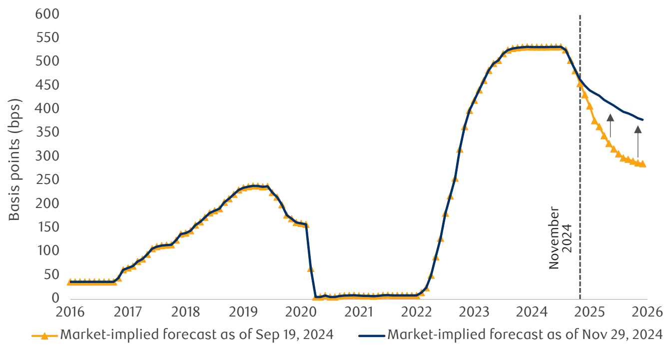
Equilibrium range



Note: As of November 30, 2024. Source: RBC GAM

Exhibit 8: Implied fed funds rate

12-months futures contracts

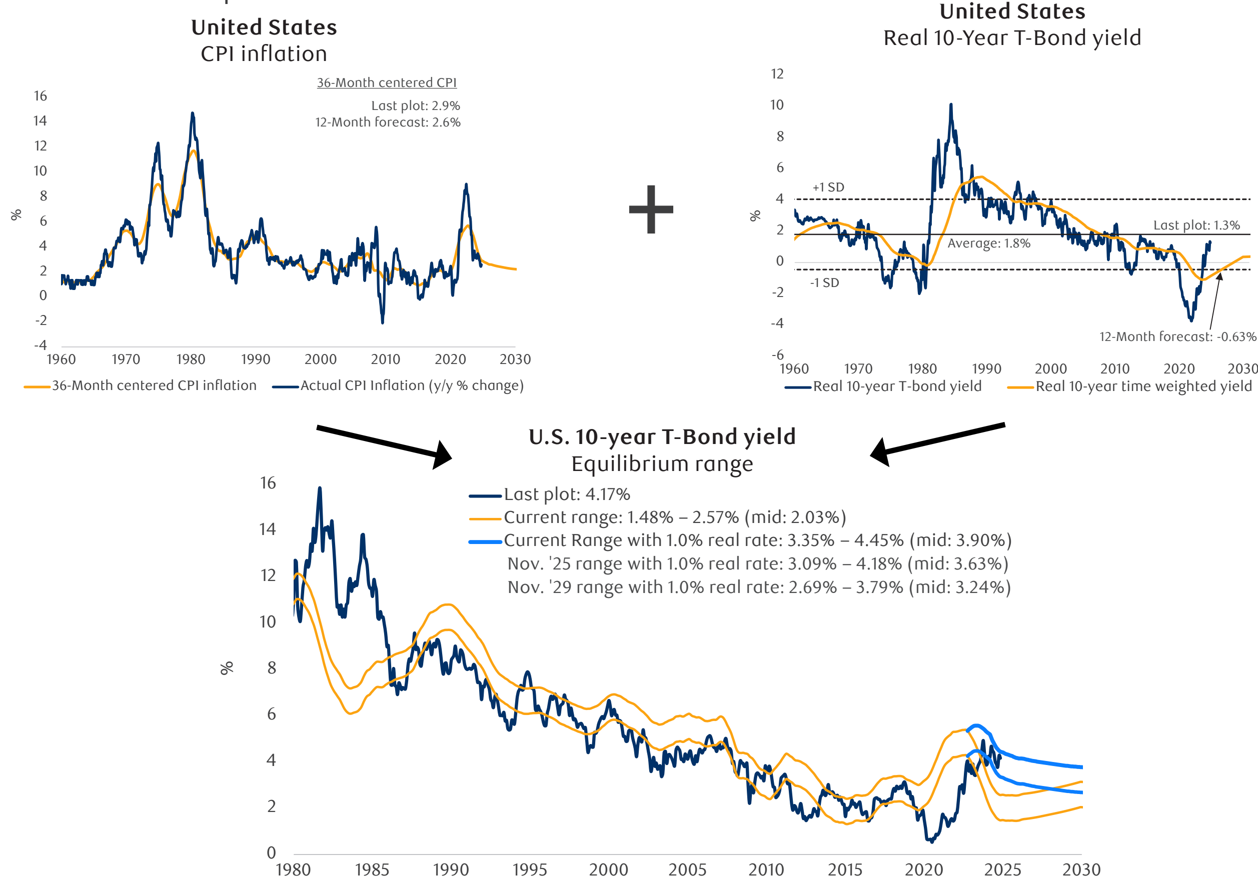


Source: Bloomberg, U.S. Federal Reserve, RBC GAM

Bonds offer decent return potential, modest valuation risk

The big shifts in interest-rate expectations over the past year have caused significant adjustments in fixed-income markets. The U.S. 10-year yield fell as low as 3.60% in September before briefly rebounding to about 4.40% coincident with the U.S. election in November. We think yields are appropriately priced in most major sovereign-bond markets except Japan, with return potential ranging from low single digits to mid single digits, with the greatest return potential being in U.S. Treasuries (Page 38). For Japan, we expect slight losses for bonds because the Bank of Japan, contrary to other developed-market central banks, is tightening monetary policy.

Exhibit 9: U.S. 10-year bond yield
Fair-value estimate composition



Note: As of November 30, 2024. Source: RBC GAM

Our conclusion that the U.S. T-bond market is fairly priced is based on an adjustment that we made earlier this year to the bond model to mitigate the pandemic's outsized impact on the real interest-rate. While our original model appeared to accurately capture the inflation premium embedded in Treasuries, the real, or after-inflation, yield component was out of line with what we might expect (Exhibit 9). We foresee real rates settling toward something closer to 0.5% to 1.5%. This is the range deemed consistent with a 2015 Bank of England paper[1] explaining the drivers of real interest rates: economic growth, demographics and an increased preference for saving versus spending. As a result, we have anchored our model to a 1% real rate 5 years from today (the middle of the range between the 0.5% and 1.5% expectation) to remove the influence of extremely negative real rates seen during the pandemic. Assuming the real rate moves from its current level to 1.0% over the coming 5 years and that inflation settles around 2 to 3 percent, our model suggests an appropriate range of 3.4% to 4.5% for the U.S. 10-year yield (blue band on the chart bottom chart of Exhibit 9). These markers, we think, serve well as ranges to tactically manage fixed-income positions. We forecast the U.S. 10-year yield toward the middle of that range, namely 4.00%, over the year ahead.

1 Lukasz Rachel and Thomas D. Smith (December 2015). Bank of England Staff Working Paper No. 571: Secular drivers of the global real interest rate.

Little sign of stress in capital markets

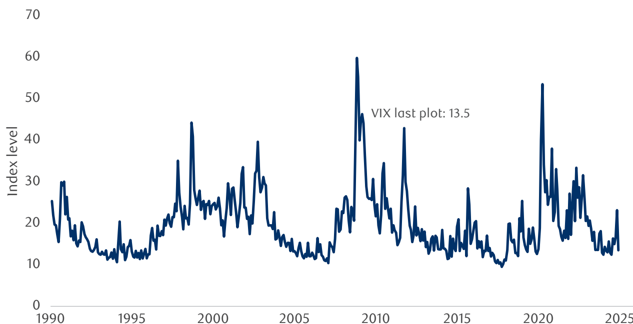
Financial markets are signaling that investors are highly confident in the outlook. The volatility index (VIX), a gauge of investor's expectations for future price changes, is close to its lowest levels in the past three decades, and, although some episodes of stress occurred during the year including an unwinding of the yen carry trade during the summer, the spike in the VIX was short-lived (Exhibit 10). Spreads on high-yield bonds and default rates are also at historic lows, suggesting a benign environment for credit markets and a low risk for corporate-bond investors (Exhibit 11). Moreover, the Bloomberg U.S. Financial Conditions Index, which consists of a variety of interest-rate and liquidity metrics, indicates that financial conditions are highly accommodative (Exhibit 12). Taking these indicators together, one can conclude that the outlook for corporate profitability is healthy, or else that investors are highly complacent and willing to accept a low return in exchange for risk taking.

Stocks extended gains with mixed results

Global equities delivered impressive gains in the past year and many markets climbed to records. The strongest returns were generated by U.S. mega-cap technology stocks, in particular the "Magnificent 7," which increased 48% between January and November. The gains began to broaden in the summer beyond mega-cap tech stocks as other areas

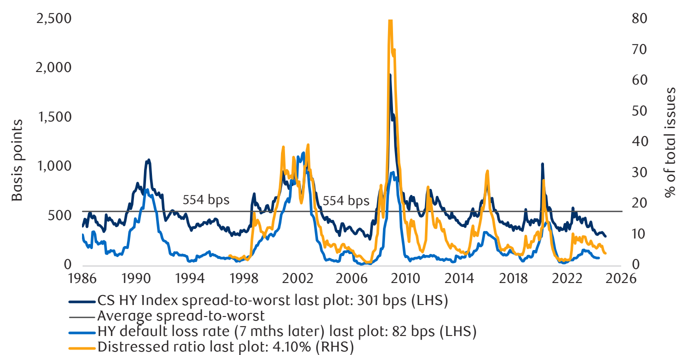
Exhibit 10: Cboe Volatility (VIX) Index

Expected volatility of the U.S. stock market



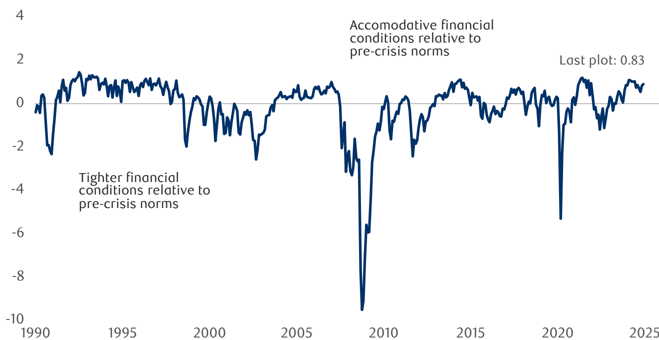
Note: As of November 30, 2024. Source: Cboe, Bloomberg, RBC GAM

Exhibit 11: High yield bond spread



Note: As of November 29, 2024. Source: BofAML, Credit Suisse, RBC GAM

Exhibit 12: Bloomberg U.S. Financial Conditions Index



Note: As of November 30, 2024. Source: Bloomberg, RBC GA

> "The Bloomberg U.S. Financial Conditions Index, which consists of a variety of interest-rate and liquidity metrics, indicates that financial conditions are highly accommodative."

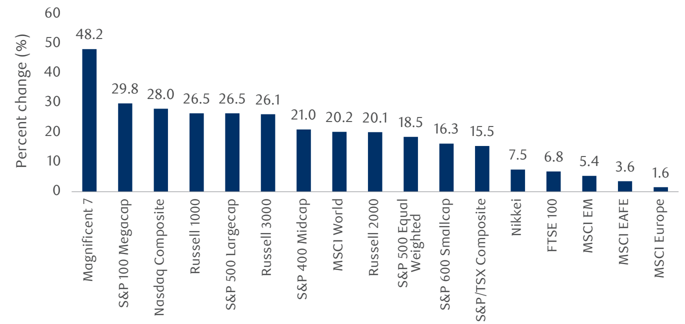
posted strong returns. The S&P 500 Index has risen 26.5% so far this year, while the Russell 2000 small cap index rose 20.1%, the S&P 500 equal-weighted index returned 18.5%, and Canada's S&P/TSX Composite Index rose 15.5% in U.S.-dollar terms (Exhibit 13). International markets underperformed, particularly after Trump's election win, given that he favours domestic growth at the expense of international and emerging-market economies. The MSCI EAFE Index and MSCI Emerging Markets Index gained just 3.6% and 5.4%, respectively, in the 11-month period.

High valuations are concentrated in U.S. mega caps

After such a strong run in global equities, many investors may be concerned that stocks are overvalued. Our own models show that valuation concerns are concentrated in U.S. mega-cap stocks. Supporting this point is that the largest 10 stocks in the S&P 500 account for a record-setting 35% weight in the index but only 25% of its aggregate earnings (Exhibit 14). While these stocks are indeed expensive, a look at our global GDP-weighted fair-value composite suggests stocks are only 6.5% overvalued (Exhibit 15). Valuations differ widely among regions outside the U.S. (page 39). Excluding the U.S. from our composite situates global stocks at 15.2% *below* fair value (gold line in Exhibit 15).

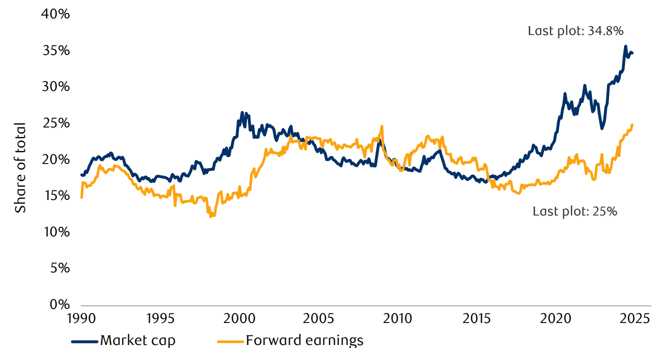
Exhibit 13: Major indices' price change in USD

December 29, 2023 to November 29, 2024



Note: Magnificent 7 includes Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla. Source: Bloomberg, RBC GAM

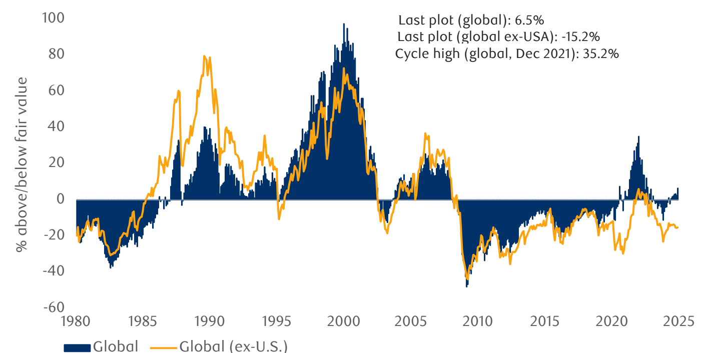
Exhibit 14: Top 10 stocks as a share of S&P 500 Index



Note: As of November 29, 2024. Source: RBC GAM

Exhibit 15: Global stock market composite

Equity market indexes relative to equilibrium



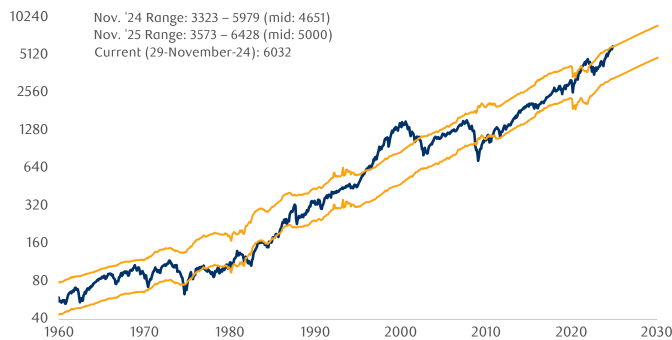
Note: As of November 29, 2024. Source: RBC GAM

Mega-cap stocks notwithstanding, the U.S. equity market offers reasonable valuations overall. While the S&P 500 trades at the top of our fair-value band one standard deviation away from the midpoint (Exhibit 16), the equal-weighted version of the index trades closer to the midpoint of its fair-value channel. This relationship suggests that the average stock in the S&P 500 is reasonably valued (Exhibit 17). Moreover, companies with smaller market capitalizations are also fairly priced, with the S&P 400 Mid-Cap Index trading in line with our modelled estimate of fair value (Exhibit 18).

As a result of their attractive valuations, stocks of many medium-sized and smaller companies offer better return potential than larger caps. For the last several years, smaller-cap stocks underperformed as earnings growth meaningfully lagged larger-cap stocks (Exhibit 19). With the U.S. domestic economy expected to strengthen and possibly receive a boost from Trump's pro-growth agenda, earnings growth could become more plentiful. In fact, the consensus of analysts' estimates shows that earnings of mid-cap stocks are expected to at least keep pace with those for large-cap stocks (see dotted line in Exhibit 19). Exhibit 20 lists a variety of earnings expectations in other markets for 2025 and 2026, as well as their price-to-earnings ratios. Several are expected to deliver earnings growth in line with the S&P 500 - but are priced at meaningfully lower price-to-earnings multiples. If earnings accelerate across the board, investors may be better off investing in U.S. mid- and small-caps stock and equities outside the U.S.

Exhibit 16: S&P 500 equilibrium

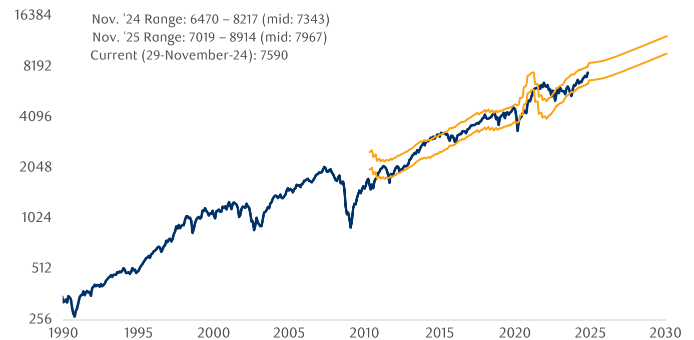
Normalized earnings & valuations



Source: RBC GAM

Exhibit 17: S&P 500 Equal Weighted equilibrium

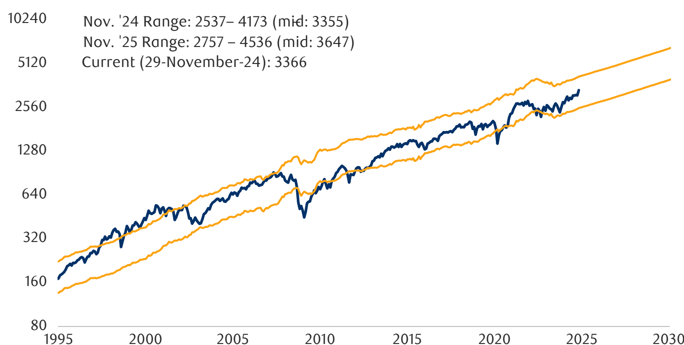
Normalized earnings & valuations



Source: RBC GAM

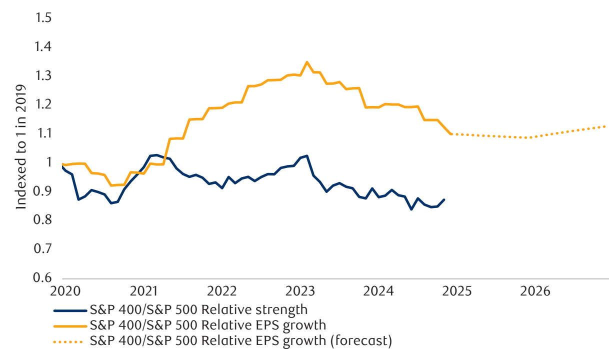
Exhibit 18: S&P 400 Mid-cap equilibrium

Normalized earnings & valuations



Source: RBC GAM

Exhibit 19: S&P 400 Mid-cap / S&P 500 relative performance and earnings growth



Note: As of November 29, 2024. Source: Bloomberg, RBC GAM

Exhibit 20: Major stock-market indices
Consensus earnings outlook

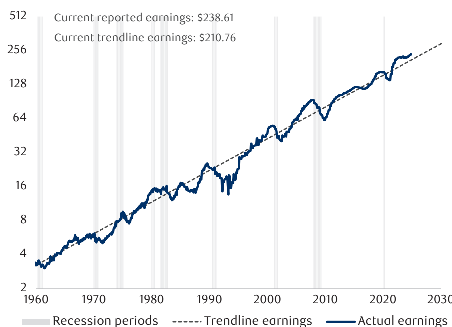
Index	Index level	EPS	P/E	EPS	EPS estimate	EPS Growth	Implied P/E	EPS estimate	EPS Growth	Implied P/E	EPS estimate	EPS Growth	Implied P/E
S&P 600 Small Cap	1533	82.26	18.6	89.73	81.16	-9.5%	18.9	93.78	15.5%	16.3	109.93	17.2%	13.9
S&P 500	6032	236.08	25.6	221.24	238.61	7.8%	25.3	272.67	14.3%	22.1	304.26	11.6%	19.8
S&P/TSX Composite	25648	1441.61	17.8	1448.19	1437.31	-0.8%	17.8	1638.88	14.0%	15.6	1781.75	8.7%	14.4
S&P 400 Mid Cap	3366	178.59	18.8	175.74	178.59	1.6%	18.8	199.11	11.5%	16.9	232.70	16.9%	14.5
S&P 500 Equal Weighted	7590	381.12	19.9	371.26	383.86	3.4%	19.8	425.90	11.0%	17.8	472.41	10.9%	16.1
MSCI World	3810	176.12	21.6	167.21	179.39	7.3%	21.2	195.32	8.9%	19.5	216.34	10.8%	17.6
MSCI Emerging Markets	1079	80.81	13.3	73.04	85.09	16.5%	12.7	92.50	8.7%	11.7	104.59	13.1%	10.3
MSCI China	63	5.80	10.9	5.39	6.03	12%	10.5	6.55	8.5%	9.6	7.31	11.6%	8.6
MSCI UK	2365	193.37	12.2	212.70	193.59	-9.0%	12.2	203.73	5.2%	11.6	218.21	7.1%	10.8
MSCI Europe	171	11.96	14.3	12.20	11.93	-2.2%	14.3	12.54	5.1%	13.6	13.71	9.3%	12.5
MSCI Japan	1647	105.38	15.6	90.45	108.34	19.8%	15.2	109.83	1.4%	15.0	124.06	13.0%	13.3
MSCI EAFE	2316	159.62	14.5	154.79	164.78	6.5%	14.1	162.97	-1.1%	14.2	178.80	9.7%	13.0

Note: As of December 3, 2024. Sorted by 2025 EPS growth. Source: Bloomberg, RBC GAM

Sustaining strong S&P 500 earnings growth likely requires expanding margins

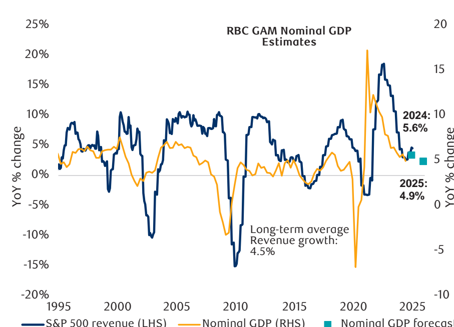
While we are generally confident that earnings will continue to rise, a lot will have to go right for today's double-digit profit growth projections for the S&P 500 are to be achieved. Earnings are re-accelerating after moving mostly sideways through 2023, but we note that they are above their long-term trend making it difficult to sustain above-average growth rates (Exhibit 21). Our nominal GDP forecast is useful in generating an earnings forecast for the S&P 500, as growth in the economy and corporate profits are closely linked (Exhibit 22). Our nominal GDP forecast (real growth plus inflation) points to mid single-digit revenue growth over the next year, and if that's the case, then the only way to get to double-digit earnings gains is if profit margins widen. That is not out of the realm of possibility as margins can rise if the economy re-accelerates. In fact, margins are already rebounding (Exhibit 23). Moreover, lower interest rates, possible tax cuts

Exhibit 21: S&P 500 earnings comparison



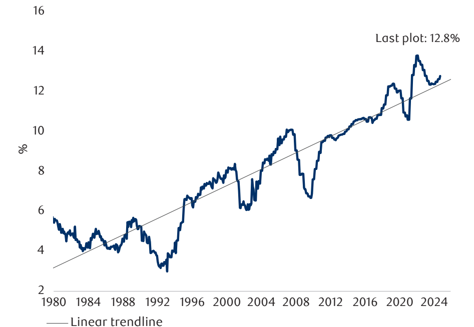
Note: As of November 29, 2024. Source: RBC GAM

Exhibit 22: United States
S&P 500 revenue and nominal GDP



Note: As of November 29, 2024. Source: RBC CM, RBC GAM

Exhibit 23: S&P 500
Net margin



Note: As of November 26, 2024. Source : Bloomberg, RBC GAM

from the new U.S. administration and benefits from artificial intelligence could lead to improved margins, but they are already near past peak levels. Further improvement is increasingly critical to achieving analyst earnings estimates.

Scenarios suggest limited upside potential for S&P 500 Index

While we believe that return potential is superior in stock markets aside from the S&P 500, the index is, after all, the world's bellwether equity index and so warrants closer inspection. Exhibit 24 outlines various possibilities for the S&P 500 based on combinations of earnings per share and price-to-earnings ratios. Should the S&P 500 companies earn an aggregate US$275 per share, in line with the consensus estimate, and trade at a P/E ratio of 22.4 (one standard deviation above the "equilibrium" level we calculate as consistent with current inflation, interest rates, and corporate profitability), the index would trade at 6164 - generating a 2% annualized total return from the end of November to the end of next year. Were earnings to rise along their current trajectory to US$309 in 2026 and maintain a P/E ratio of 22.4, annualized returns would be 8% from now until the end of 2026. Keep in mind, though, that the equilibrium P/E is 17.9. If the multiple falls to this level, it's likely the index would be lower within as few as two years. Given a starting point of historically elevated valuations at the time of this writing, further returns for the S&P 500 will likely require a combination of heightened investor confidence, strong earnings growth, falling interest rates and cooling inflation. Even if all of those things fall into place, the reward is likely modest returns. Should earnings disappoint or risks mount to ding investor confidence, stocks would be vulnerable to correction.

Exhibit 24: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500

		Consensus	Total Return		Consensus	Total Return		Consensus	Total Return
		2024	2024		2025	2025		2026	2026
	P/E	$243.6		P/E	$274.6		P/E	$308.7	
+2 Standard Deviation	26.9	6542.8	8%	27.0	7422.3	21%	27.0	8343.6	17%
+1 Standard Deviation	22.3	5433.6	-11%	22.4	6163.9	2%	22.4	6929.1	8%
+0.5 Standard Deviation	20.0	4879.0	-20%	20.2	5534.8	-7%	20.2	6221.8	2%
Equilibrium	17.8	4324.4	-29%	17.9	4905.6	-17%	17.9	5514.5	-3%
-0.5 Standard Deviation	15.5	3769.7	-38%	15.6	4276.4	-26%	15.6	4807.3	-9%
-1 Standard Deviation	13.2	3215.1	-47%	13.3	3647.3	-36%	13.3	4100.0	-16%

Note: As of November 28, 2024. Total returns for 2025 and 2026 are annualized. Source: LSEG I/B/E/S, RBC GAM

Styles - Trump victory boosted economically sensitive stocks in North America

There is evidence that investors are moving into mid-cap, small-cap and value stocks while shying away from international markets. Within the U.S., leadership shifted during the summer from large-cap growth stocks, which have led for much of the post-pandemic bull market, toward value and small-cap stocks (exhibits 25 and 26). These relative moves were further boosted by Trump's election victory over Harris. Interestingly, this shift did not benefit international and emerging markets, which extended their long-time underperformance (exhibits 27 and 28). Many of the post-election rallies are similar to what we saw immediately following Trump's victory in 2016, but they fizzled shortly after.

Exhibit 25: Value to growth relative performance

S&P 500 Value Index / S&P 500 Growth Index

Note: As of November 29, 2024. Source: Bloomberg, RBC GAM

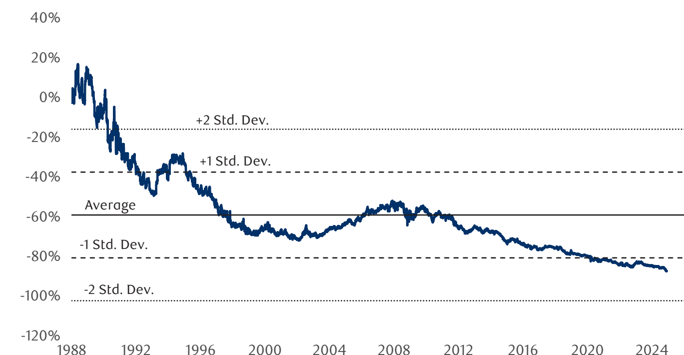
Exhibit 26: U.S. small caps versus large caps

Russell 2000 Index / S&P 500 Index

Note: As of November 29, 2024. Source: Bloomberg, RBC GAM

Exhibit 27: Relative performance

MSCI EAFE TR USD vs S&P 500 TR USD



Note: As of November 29, 2024. Source: Bloomberg, RBC GAM

Exhibit 28: Relative performance

MSCI World versus MSCI Emerging Markets

Note: As of November 29, 2024. Source: MSCI, Bloomberg, RBC GAM

Asset mix – closed underweight in bonds as yields jumped

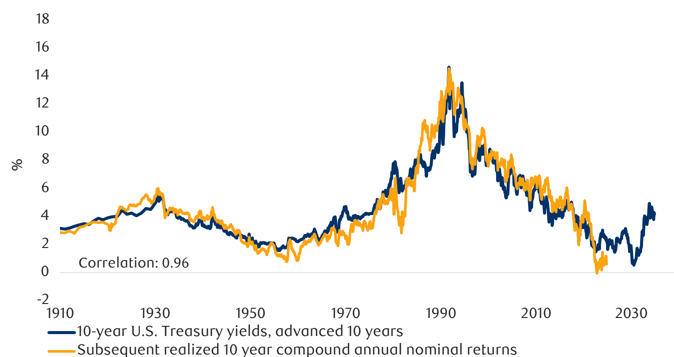
Our recommended asset mix aims to balance the risks and opportunities over short- and longer-time horizons. Over our 1-year forecast horizon, we expect the economy to avoid recession while inflation moderates. Central banks should continue to reduce rates at a gradual pace although the ultimate trough may be somewhat above levels expected for the fed funds rate as 2024 began. We recognize there are a variety of risks to this benign macroeconomic outlook, including geopolitical instability, China's growth challenges and uncertainty related to the new U.S. administration. We therefore believe having an asset mix closer to our strategic neutral setting positions us to take advantage of upside opportunities, while maintaining appropriate diversification without excessive risk taking.

With bond yields having risen meaningfully since the pandemic, return potential in bonds is reasonably attractive. Further significant losses in bonds seems unlikely as long as inflation remains under control. A reliable estimate for what investors will receive from a fixed-income asset is the current yield to maturity, which is around 4.2% on U.S. 10-year bond (Exhibit 29). This figure is down a bit from late last year but still well above levels since the 2008 global financial crisis, when yields spent more than the decade following below 4%. Importantly, at higher yields, bonds offer greater ballast against equity-market volatility in the context of a balanced portfolio.

Stocks still offer superior return potential but the premium relative to bonds is. The historical relationship between Shiller's cyclically adjusted P/E ratio (CAPE) and stock-market performance suggests that today's elevated valuations in U.S. large-cap stocks translates to around a 4.5% annualized return over the next decade for the S&P 500 (Exhibit 30). But we recognize that other equity markets, almost all of which have more attractive valuations, offer greater return potential in an environment where economic growth accelerates broadly.

We have been more tactical in our fixed-income asset allocation during the past several quarters. This quarter we added one percentage point to our bond allocation as yields rebounded back above 4%. That move took advantage of the increased return potential and diminished valuation risk in fixed income markets, neutralizing our underweight position established in the prior quarter at lower yields. We are maintaining a neutral allocation to stocks, recognizing limited upside in U.S. large-cap stocks especially. However, within our equity weight, we have nudged our positions slightly away from mega-cap technology stocks to dial down our exposure to concentration risk in the U.S. equity market. At the top level, our asset mix is in line with our strategic neutral setting, which we believe positions us well to take advantage of volatility should it arise. For a balanced global investor, our current recommended asset mix is 60.0% equities (strategic: "neutral": 60.0%), 38.0% bonds (strategic "neutral": 38.0%) and 2.0% cash.

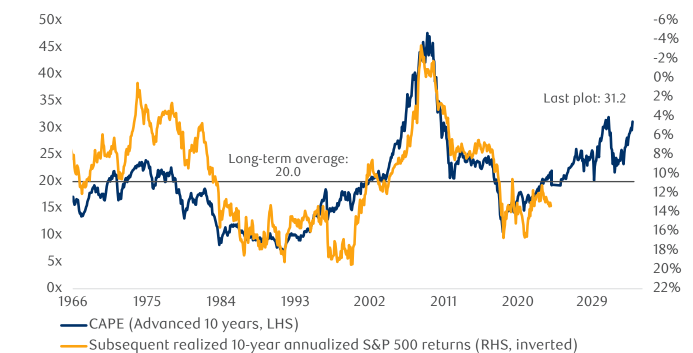
Exhibit 29: U.S. 10-year Treasury note and returns



Note: November 29, 2024. Source: Deutsche Bank, Macrobond, RBC GAM

Exhibit 30: Shiller's CAPE

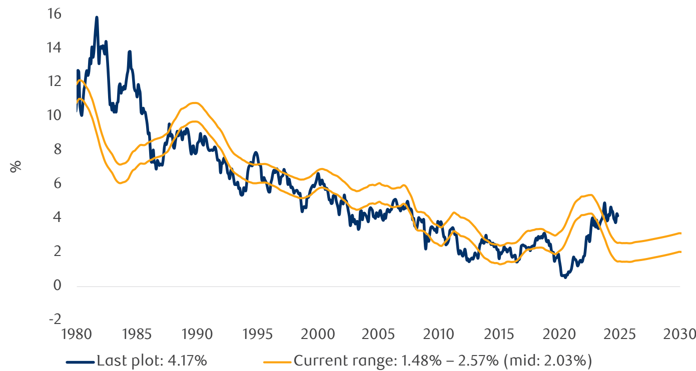
Real S&P 500 Index / 10-year average of real EPS



Note: As of November 29, 2024. Source: Macrobond, Bloomberg, RBC GAM

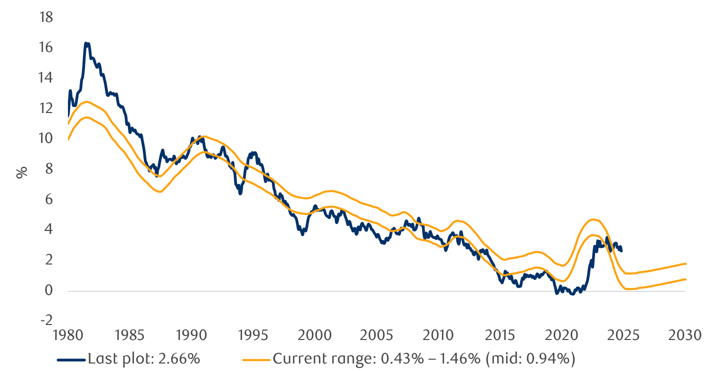
Global fixed income markets

U.S. 10-Year T-Bond Yield
Equilibrium range



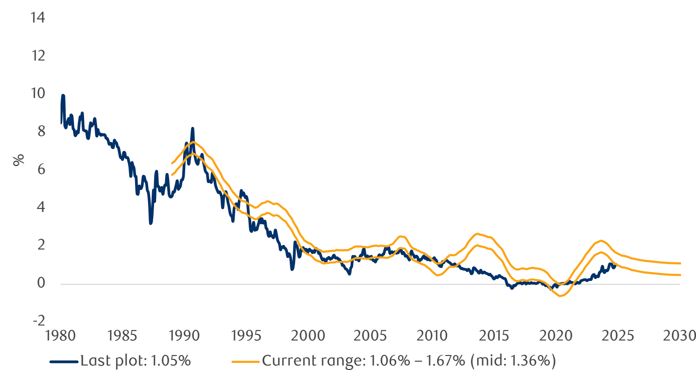
Note: As of November 30, 2024. Source: RBC GAM

Eurozone 10-Year Bond Yield
Equilibrium range



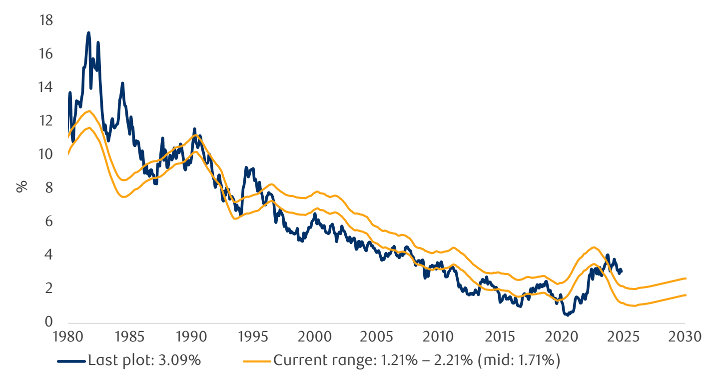
Note: As of November 30, 2024. Source: RBC GAM

Japan 10-Year Bond Yield
Equilibrium range



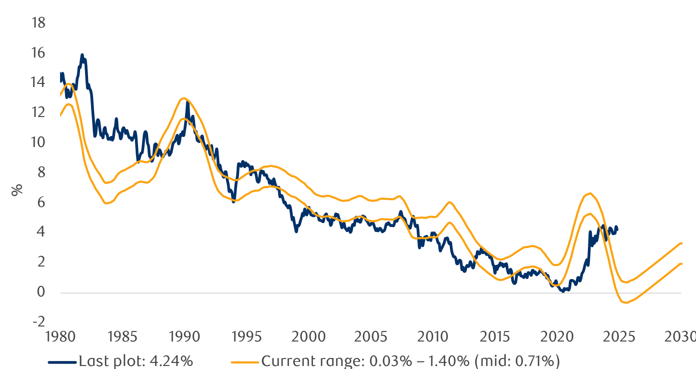
Note: As of November 30, 2024. Source: RBC GAM

Canada 10-Year Bond Yield
Equilibrium range



Note: As of November 30, 2024. Source: RBC GAM

U.K. 10-Year Gilt
Equilibrium range

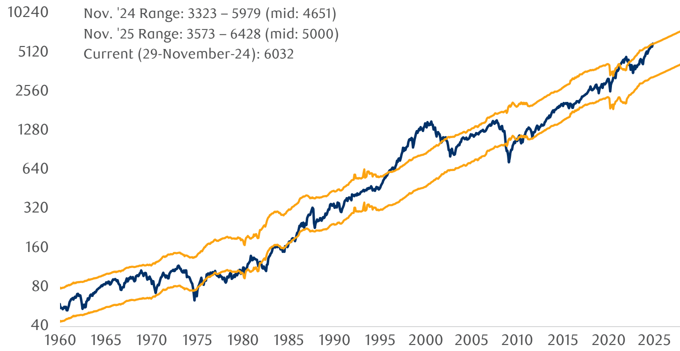


Note: As of November 30, 2024. Source: RBC GAM

> "We think yields are appropriately priced in most major sovereign-bond markets except Japan, and return potential ranging from low single digits to mid single digits, with the greatest return potential being in U.S. Treasuries."

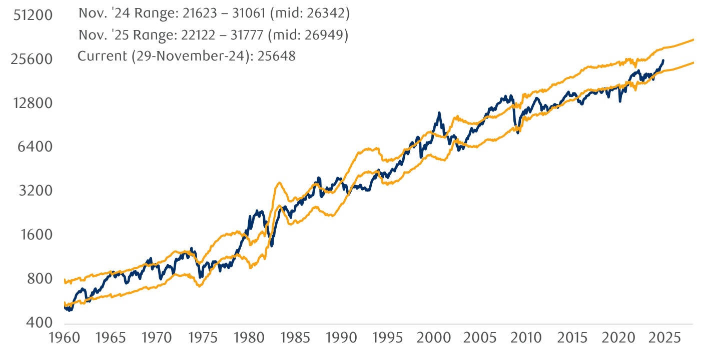
Global equity markets

S&P 500 Equilibrium
Normalized earnings and valuations



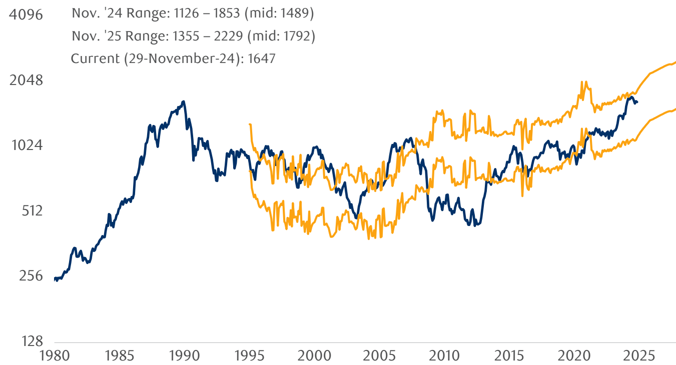
Note: As of November 30, 2024. Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



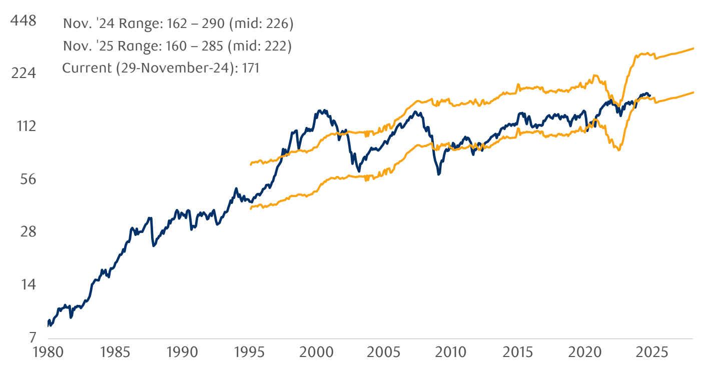
Note: As of November 30, 2024. Source: RBC GAM

MSCI Japan Index
Normalized earnings and valuations



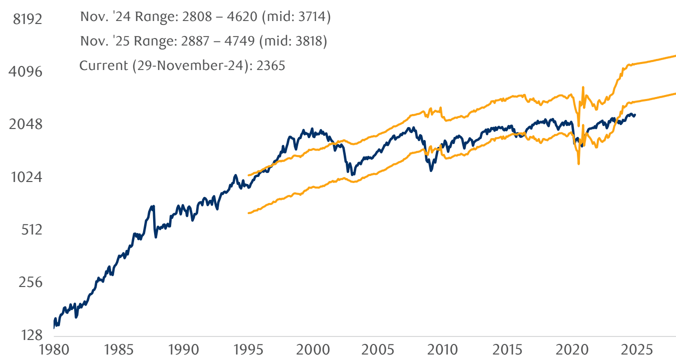
Note: As of November 30, 2024. Source: RBC GAM

MSCI Europe Index
Normalized earnings and valuations



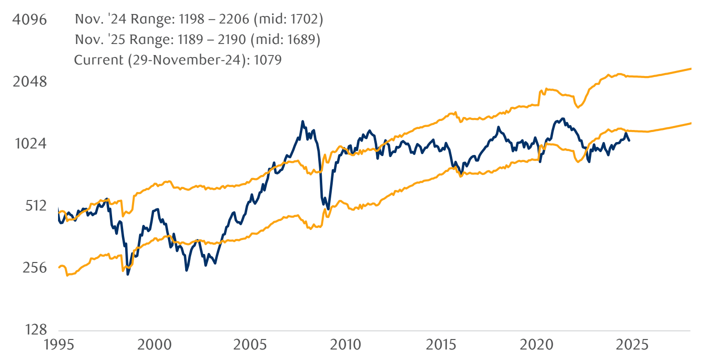
Note: As of November 30, 2024. Source: RBC GAM

MSCI UK Index
Normalized earnings and valuations



Note: As of November 30, 2024. Source: RBC GAM

MSCI Emerging Markets Index
Normalized earnings and valuations



Note: As of November 30, 2024. Source: RBC GAM

Note: The 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.

Global fixed income markets

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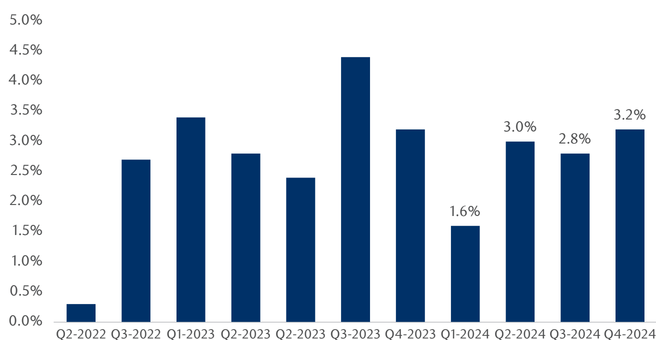
Bond yields have risen in most markets since the last edition of the Global Investment Outlook as investors pared expectations for deep interest-rate cuts by central banks. The re-election of Donald Trump as U.S. president and Republicans' control of Congress increase policy uncertainty for the world's largest economy and bond market. At the same time, we believe the global economy is for the most part likely to continue on its pre-election path of moderating growth and near-target inflation, a path that was set in the aftermath of aggressive monetary-policy tightening. We expect that central-bank policy rates will be lower in a year's time, as both slower growth and closer-to-target inflation permit policymakers to support their economies by easing interest rates. In turn, we forecast mid-single digit returns for bonds.

Exhibit 1: US GDP growth is solid
GDP growth rate, quarter-on-quarter, seasonally-adjusted at an annual rate



Note: As of December 3, 2024. The estimate for Q4-2024 is the Federal Reserve Bank of Atlanta's GDP NowCast. Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of Atlanta

Bond yields are higher following Trump's election victory as investors assess implications for the macroeconomic outlook. The president-elect inherits an economy that has sloughed off the constraints of an aggressive monetary-hiking cycle and continues to grow at a near-3% pace (Exhibit 1). Moreover, the sweep of the legislative and executive branches of government raises the odds that Republicans will be able to implement their campaign-trail pledges more fully. That means more economic nationalism and trade protectionism; less regulation; lower taxes; and less immigration. Higher bond yields suggest that investors expect the incoming administration's tax cuts and deregulatory zeal to provide a fillip to growth, and tariffs and economic nationalism are likely to drive up inflation.

Trump also inherits a fiscal mess. The U.S. federal government runs a budget deficit of 6% of gross domestic

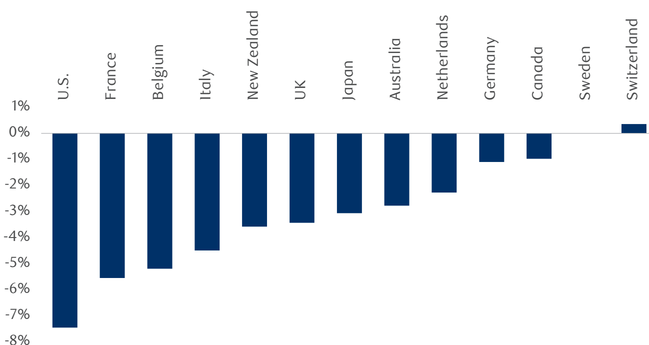
product, which adjusted for economic conditions is the worst among major developed-market economies. (Exhibit 2). Investors known as "bond vigilantes" have so far not sought higher borrowing costs from the world's biggest debtor nation, while other countries that have generated concerns over excessive government spending have not been so lucky. The UK and France, for instance, are both having to pay higher borrowing costs, and investor confidence in both countries is wobbling. The U.S., of course, enjoys the privilege of issuing debt in the world's predominant reserve currency, but continued fiscal profligacy without a concrete plan to remedy the situation risks wearing investors' patience thin at some point.

Promises to significantly curtail U.S. immigration are likely to be at least partially realized. The post-pandemic immigration surge has already waned, and by some estimates the number of immigrants, both documented and not, has halved from its 2022 peak. While we are skeptical that the most aggressive forms of immigration policy, such as forced mass deportations, are likely to be implemented, the psychological deterrent impact of these policies on an important source of labour in the U.S. will likely be a drag on economic growth.

For bond investors, the key will be the reaction of the U.S. Federal Reserve (Fed) to the economic crosswinds. Investors began paring expectations for rate cuts before the election (Exhibit 3) as the odds of a Trump victory rose. Now that Trump has been elected with a Republican Congress, it is unclear just how much more these easing expectations can be reduced barring an unexpected upswing in inflation and activity beyond that implied by tariffs and tax cuts. At this point, we think it unlikely that the Fed changes course from a path of deliberate easing.

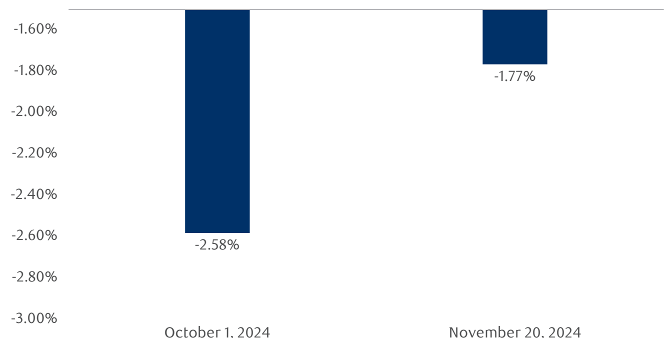
The Fed's chair, Jerome Powell, insisted at a November 7 press conference that he would not pre-judge the substance or impact of any policy changes under the new administration and vowed not to change course on interest-rate policy unless required by economic developments. Powell was explicit that, as policymakers, "we don't guess, we don't speculate, and we don't assume." This is a change from Powell's approach to the first Trump administration, before he was appointed Fed chair: As a member of the Fed's policy-making arm in 2016, he bumped up his inflation and growth assumptions soon after Trump won the election. We believe Powell's focus on keeping market expectations in check is genuine and partially reflects the Fed's concern that interest rates are high enough to crimp economic growth. The Fed's famous "long and variable lags" have yet to manifest themselves in the U.S. economy. Even with the Fed's current

Exhibit 2: U.S. exceptional for the wrong reasons fiscally – Cyclically adjusted balance (% of potential GDP)



Note: Forecasts for 2025. Source: IMF Fiscal Monitor October 2024

Exhibit 3: Investor expectations for peak-to-trough drops in the fed funds rate



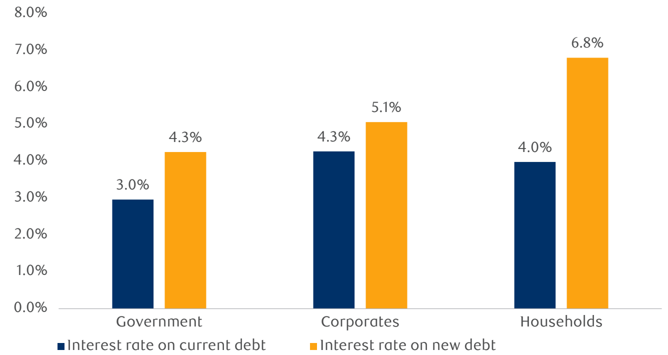
Source: Bloomberg, RBC GAM calculations

round of policy easing, interest rates remain higher than they are on most outstanding debt including mortgages and corporate bonds (Exhibit 4). Over time, borrowing costs for governments, corporations and households are likely to continue rising as new debts are taken on.

Outside the U.S., economic growth is slower, and it is more obvious that central banks need to cut interest rates. In the G10, most central banks have cut interest rates at least as much or more than the Fed. (Exhibit 5).

Certainly, we expect some of the policy easing that has taken place thus far to eventually bolster economic activity – those long and variable lags at work again. What we do not expect is a big pick-up in fiscal spending. In fact, our forecasts are for modest fiscal consolidation over the next year, posing a headwind to growth overall. Many governments have been slow to kick the habit of high pandemic-level spending, and this fiscal consolidation is overdue. However, an unplanned expansion in fiscal deficits would likely put upward pressure on yields as a strengthening economy and perhaps higher inflation curtail the desire of central bankers to ease policy.

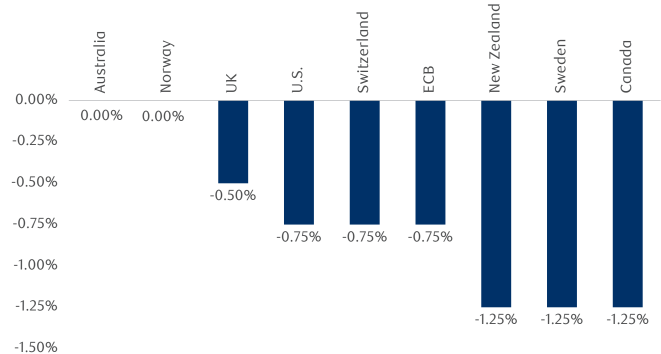
Exhibit 4: Borrowing costs are still rising for most, even after rate cuts



Note: As of December 3, 2024. For Corporates and Government, these represent the yield-to-maturity and coupon rates on the Bloomberg Barclays US Investment Grade Universe Bond Index and the US Treasury Universe Index respectively. For households, we refer to the implied rate on the existing mortgage stock versus the market rate on new 30-year mortgages. Source: Bloomberg, US Treasury, Fannie Mae and Freddie Mac

Exhibit 5: Policymakers have been cutting rates

Decline in policy interest rates from their respective highs



Note: As of December 4, 2024. Source: Central banks, RBC GAM calculations

Direction of rates

For U.S. 10-year bonds, we expect yields to be 4.00% at some point within the next year.

United States

As expected, the Fed eased monetary policy for the second consecutive meeting on November 8, lowering the target range for the fed funds rate to between 4.50% and 4.75%. The Fed continues to ease policy from what it considers to be an extremely restrictive setting, in line with the sharp fall in inflation. While the unemployment rate declined in October, it appears that the data was heavily affected by back-to-back major hurricanes. For its part, the labour market continues to soften but is not soft. Much had been made of the triggering of the so-called Sahm Rule, which has historically coincided with the U.S. being in a recession or on the verge of one. Based on unemployment claims and announced layoffs, however, the economy is showing few signs that it is in a recession. Inflation has generally continued to cool but remained a touch too high at 2.6% year-on-year in October, as measured by the Fed's preferred gauge. The start of the Trump administration early next year has called into question the Fed's plan to continue easing policy rates to something closer to neutral, which it estimates to be between 2.50% and 3.00%. The Fed's policymaking arm has refused to expound on its views of Trump's likely policy mix of tax cuts, tariffs, deregulation and immigration curtailment, which would together tend to generate tighter rather than looser policy.

We expect that the Fed's target range for the fed funds rate will fall to between 3.50% and 3.75% sometime over the next year, which represents at least one more rate cut than investors expect. For U.S. 10-year bonds, we expect yields to be 4.00% at some point within the next year.

We forecast the 10-year bund yield to be 2.25% within a year, compared with 2.09% now.

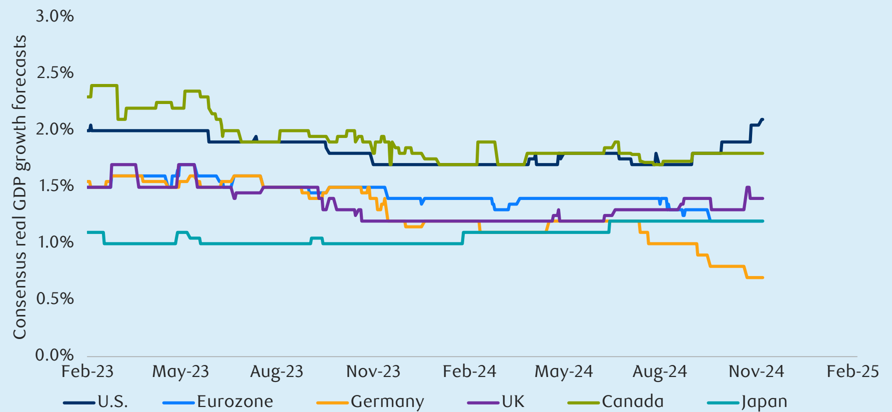
Eurozone

The European Central Bank (ECB) cut its key policy rate by 25 basis points at consecutive meetings in September, October and December, lowering the rate to 3.00% from 3.75%. The rate should drop to 1.75% sometime over the next year as inflation cools and economic growth remains relatively sluggish.

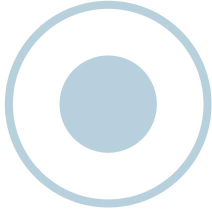
Investors have become particularly pessimistic about the economic outlook for Europe over the next year (Exhibit 6). The single-currency bloc certainly has its challenges. Most governments are entering a period of fiscal consolidation, presenting a headwind to economic growth, and Germany's mighty industrial base is struggling. In France, concerns over the fiscal and political situation have increased since the central government collapsed in early December. Adding uncertainty is the recent scheduling of snap elections in Germany due to be held in February. At this stage, we do not think the outcome of the vote is likely to have much impact on economic growth. Investors are unenthusiastic about Europe's economy these days, given uncertainty about the war in Ukraine and the potential impact of the new U.S. administration. Investors' pessimism is currently reflected in their expectations for ECB rate cuts.

Alongside the expected decline in the ECB policy rate, we forecast the 10-year bund yield to be 2.25% within a year, compared with 2.09% now.

Exhibit 6: Investors are very pessimistic about Europe in 2025



Note: As of December 4, 2024. Source: Bloomberg consensus economic forecasts



Yields on Japanese bonds should continue to rise, with the 10-year bond yield reaching 1.50% versus about 1.04% at the time of writing.

Japan

The Bank of Japan (BOJ) has remained on hold since July when it hiked rates for the second time this year. Policymakers have been reluctant to take further steps on rates after the BOJ's actions led to surge in the value of the yen and a 12% one-day collapse in Japanese equities. Inflation has come off the boil but remains high relative to the past three decades. What's more, households and corporations expect prices to keep rising, and initial forecasts for annual spring wage negotiations portend another historic increase.

We expect policymakers to raise the policy rate to 0.75% at some point over the next year. Yields on Japanese bonds should also continue to rise, with the 10-year bond yield reaching 1.50% versus about 1.04% at the time of writing.

The Canadian 10-year government bond will likely trade near 3.25% at some point over the next 12 months.

Canada

The Bank of Canada (BOC) accelerated its pace of interest-rate cuts by slashing the policy rate in 50-basis-point increments in both October and December to 3.25% from 4.25%, citing concerns that the economy is weakening.

Moreover, inflation is much lower than it was a year ago. The central bank's preferred measure of core inflation is just above 2%. Inflationary pressures are no longer broad-based, and the labour market has also softened with increasing unemployment. In addition, growth in domestic demand has eased and is expected to slow further due to government plans to scale back immigration in a bid to slow population growth. With inflation and growth continuing to decline, further policy easing in 2025 is likely to be warranted.

There are clear economic differences between the U.S. and Canada, and a stronger U.S. economy suggests to us that over the next year interest rates will come down faster in Canada than in the U.S. Our base case forecast for the BOC's policy rate is lower than what is expected by investors based on market indicators. We expect that the BOC policy rate will fall to 2.75%, which is 100 basis points lower than the fed funds rate. The current policy divergence is not extreme as, historically, the divergence ranged between 100 and 200 basis points. The Canadian 10-year government bond will likely trade near 3.25% at some point over the next 12 months.

We are keeping 10-year gilt yields forecast at 4.25%, expecting bond market to recover from sell-off started in late September.

United Kingdom

The Bank of England (BOE) delivered its second policy-rate reduction of the year in November, cutting the benchmark interest rate to 4.75% from 5.00%. The BOE's governor has adopted a gradual approach to rate reductions, citing the need to assess the inflationary and growth impacts of government plans to boost taxes and spending. UK gilts, meanwhile, joined the global bond sell-off since September, but surged again after the government plans for additional borrowing, announced October 30, pushed yields still higher and caused gilts to underperform. Our view is that higher yields suggest an improvement in the macroeconomic outlook and that current yields present an opportunity to accumulate bonds at levels that should provide attractive income. We note, however, that household and corporate interest burdens will probably weigh on consumption.

Our expectation is that gilts will outperform their peers in the coming 12 months. At the time of writing, investors expect the BOE's policy rate to drop to 4.15% in a year. We are keeping our forecast at 4.00% in alignment with expectations for a gradual easing cycle. We are also keeping 10-year gilt yields forecast at 4.25%, expecting bond market to recover from sell-off started in late September.

Regional recommendation

We expect returns in Japan to lag those in the U.S. and Europe. High starting yields near 4.25% and continued interest-rate cuts should enable the U.S. bond market to outperform. We recommend being 5.0% overweight Treasurys and 5.0% underweight Japanese government bonds.

High starting yields near 4.25% and continued interest-rate cuts should enable the U.S. bond market to outperform.

Underweight Japanese government bonds vs. **Overweight U.S. Treasuries**

Interest-rate forecast: 12-month horizon

Total-return calculation: December 2, 2024 – December 1, 2025

U.S.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	3.75%	3.40%	3.60%	4.00%	4.40%	4.99%
Change to prev. quarter	(0.50%)	(0.20%)	(0.15%)	0.25%	0.00%	
High	5.00%	4.85%	4.90%	5.00%	5.10%	0.28%
Low	2.25%	2.50%	2.75%	3.25%	3.80%	9.11%
Expected Total Return US$ hedged: 4.9%						

Germany

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.75%	1.60%	1.85%	2.25%	2.60%	0.22%
Change to prev. quarter	(0.75%)	(0.40%)	(0.25%)	(0.10%)	(0.10%)	
High	3.25%	3.00%	2.85%	3.00%	3.00%	(3.85%)
Low	1.50%	1.25%	1.50%	2.00%	2.50%	2.15%
Expected Total Return US$ hedged: 1.9%						

Japan

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.75%	1.00%	1.30%	1.50%	2.80%	(4.10%)
Change to prev. quarter	0.00%	0.05%	0.05%	0.00%	0.15%	
High	1.00%	1.20%	1.40%	1.75%	2.80%	(4.58%)
Low	0.25%	0.50%	0.50%	0.75%	2.00%	6.27%
Expected Total Return US$ hedged: 1.5%						

Canada

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.75%	2.80%	2.90%	3.25%	3.45%	2.23%
Change to prev. quarter	(0.50%)	(0.45%)	(0.40%)	0.00%	(0.20%)	
High	4.00%	3.90%	3.80%	4.00%	3.90%	(1.42%)
Low	2.00%	2.40%	2.50%	2.75%	2.85%	5.30%
Expected Total Return US$ hedged: 3.7%						

U.K.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.00%	3.90%	4.00%	4.25%	4.70%	5.16%
Change to prev. quarter	(0.25%)	(0.10%)	0.10%	0.00%	(0.20%)	
High	5.00%	5.10%	5.00%	5.00%	4.85%	1.53%
Low	3.00%	2.90%	3.15%	3.50%	4.25%	10.44%
Expected Total Return US$ hedged: 4.8%						

Source: RBC GAM

Currency markets

Trump breathes life into the dollar

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RBC Global Asset Management Inc.

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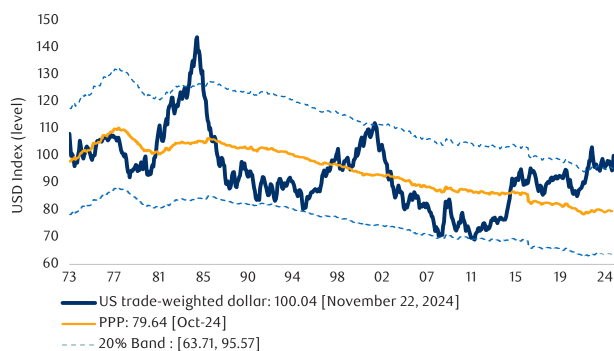
Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

We've put our bearish U.S.-dollar outlook on pause following the November elections that resulted in Republicans winning control of the White House and both houses of Congress. Incoming President Donald Trump's proposed policies on trade, taxes, deregulation and immigration are likely to be tough on U.S. trade partners and generally inflationary. Even if these proposals are watered down, it is likely that they would keep the U.S. Federal Reserve (Fed) from cutting interest rates as much as we had previously expected. As a result, we expect the greenback to remain elevated for longer, even amid valuations that indicate a decline beyond our forecast horizon. We think that the new administration's approach, as well as a more challenging European economic outlook will pose greater headwinds for the euro while the yen, pound and Canadian dollar will be more resilient. The Chinese renminbi will also be pressured by trade tensions, though its performance depends heavily on the actions of the Chinese central bank.

Exhibit 1: USD – PPP Valuation



Note: As at November 22, 2024. Source: U.S. Federal Reserve, Bloomberg, RBC GAM

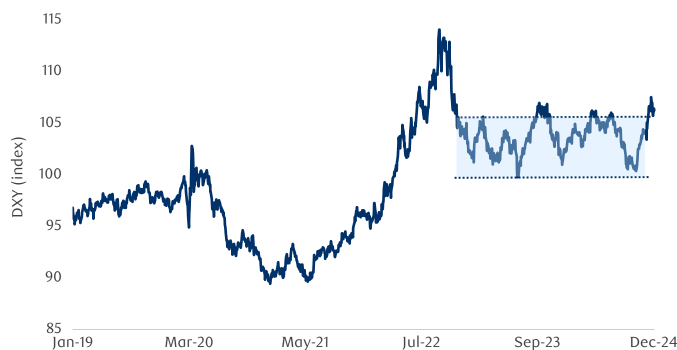
We have long been bearish on the U.S. dollar, owing to stretched valuations (Exhibit 1). Other long-term factors, such as fiscal and current-account deficits and a shift away from use of the dollar for foreign-exchange reserves also suggest the greenback should be falling. While the Fed's campaign to raise interest rates in 2022 delayed what we expected would be the dollar's decline, this year's rate cuts by the central bank fueled speculation that the dollar could finally weaken. A government promising policy continuity would have solidified that movement.

In the wake of the U.S. election results, investors will need to wait longer for the dollar to weaken, though it is worth noting that the extent to which the greenback remains elevated will depend largely on how and when proposed policies by the

new Republican government are enacted. In the few weeks since the November elections, the dollar has risen through the upper end of its two-year range (Exhibit 2) as investors focused on policy proposals that are most relevant for currency markets:

- **Trade policy:** Trump's proposal for a blanket 10% tariff on goods and services imported into the U.S. and a 60% levy on items produced in China will support the dollar, at least in the near term. This is partly because tariffs raise the cost of goods and services for American consumers, causing the Fed to keep policy rates higher than it might have otherwise. In general, tariffs are designed to make foreign goods more expensive and encourage foreign firms to increase manufacturing capacity in the U.S. to avoid the tax. When imported goods become more expensive for consumers, foreign currencies typically weaken, offsetting some of the pain.
- **Tax cuts, deregulation and efficiency gains**: Cutting wasteful government spending is not an original idea, but creating a department of governmental efficiency *is* a novel way to accomplish that goal. It is unlikely that spending cuts will reduce overall deficits, however, as the new administration plans an extension of the Tax Cuts & Jobs Act passed in 2018 during Trump's first presidency. Alongside deregulation, growth-supportive measures may extend a period in which the U.S. economy has outperformed other developed-market economies, keeping the dollar in demand from investors looking to benefit from higher yields and stronger corporate profits.
- **Geopolitics:** The dollar is the world's primary reserve currency because of the depth and liquidity of U.S. capital markets. U.S. military dominance that covers the policing of international shipping lanes also helps. This is the cost associated with the "exorbitant privilege" of being able to print currency that will be accepted globally without question. Trump's threat to abandon NATO and pull U.S. support for Ukraine may simply be the opening gambit to force Europe to shoulder more of the cost, which is negative for the euro in the short term because it heightens concerns about energy security and could divert already scarce fiscal resources. In the longer term, however, Trump risks pushing a greater number of countries to use other currencies to finance trade. Already, countries in the Middle East and elsewhere in Asia have been buying oil in Indian rupees or renminbi. Moreover, a proposal to introduce a common means of exchange for use by Brazil, Russia, India, China and South Africa (collectively the BRICS nations) is a sign that the U.S. may have abused its position by seizing Russian foreign-exchange reserves and blocking access to U.S.-dollar payment systems, effectively weaponizing the dollar. A rally in the gold price exceeding 30% over the past year alongside an increased weight of gold in foreign reserves shows waning confidence in the U.S. dollar as a store of value.
- **Attitude toward the dollar:** Donald Trump seems to prefer a weaker dollar. He has often complained that U.S.-dollar strength is eroding American competitiveness and has hinted that he aims to even the scales by forcing other countries to strengthen their own currencies. We're doubtful that China would ever formally agree to allow the renminbi to strengthen after reviewing the impact of the 1985 Plaza Accord, where Japan's agreement to let its currency strengthen ended up having a damaging long-term effect on Japanese industry. A more likely agreement would involve Chinese firms setting up factories in the U.S., providing jobs for American factory workers and a political win for Trump. Should this fail, Vice President-Elect JD Vance has gone so far as to suggest outright intervention to cheapen the dollar, but it doesn't appear as though the U.S. government has the available mechanism

Exhibit 2: USD broke out of 2-year range following U.S. elections



Note: As at December 4, 2024. Source: Bloomberg, RBC GAM

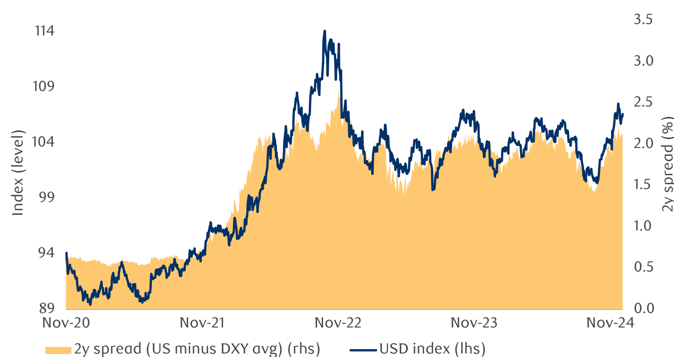
with which to take such action. Perhaps, then, the White House will resort to pressuring the Fed to keep monetary policy accommodative. By installing a more dovish Fed president when Jerome Powell's term ends in 2026, the White House could engineer an outcome with lower rates that both supports domestic economic activity and weakens the currency. This political interference could severely undermine the Fed's hard-earned inflation-fighting credibility and cause a large-scale sell-off in bond and equity markets, an outcome which would be very bad for the dollar in the longer term.

Equity, bond and foreign-exchange markets have so far been relatively calm in the weeks following the election. The greenback's initial rally to new highs was held in check by the nomination of Scott Bessent as Treasury Secretary. Bessent was clearly the safer choice and the one preferred by investors because of his known and well-articulated stance on trade and fiscal policy. If confirmed, he will likely opt for a more incremental approach to tariffs – likely providing relief for investors who fear the immediate imposition of 60% tariffs on Chinese goods on the day Trump is sworn into office. Bessent's challenge will be to persuade Trump that he should not use executive authority to unilaterally impose punitive tariffs.

Whether the new Treasury secretary will dull the dollar-positive impact of Trump's agenda is still to be seen. Will Bessent be given the leeway to manage matters without being overruled by Trump? If so, how will individual currencies and economies fare? We suspect the regions that will be hardest hit by the new trade and geopolitical regime include China, Europe and Mexico. Other Asian nations are also likely to be targeted owing to their tightly managed currencies and large trade surpluses with the U.S. "Friendly" trade partners like Canada may also fall prey to a rising U.S. dollar but could suffer less because the U.S. relies on Canadian energy and the two economies are intertwined on many levels. We think the new president will opt to negotiate more quickly with Canada than with China or Mexico, which run larger surpluses with the U.S. and are increasingly stealing market share from American industry. It appears that, for Canadians, success in these negotiations will depend largely on a commitment from Canada to better police the U.S. border.

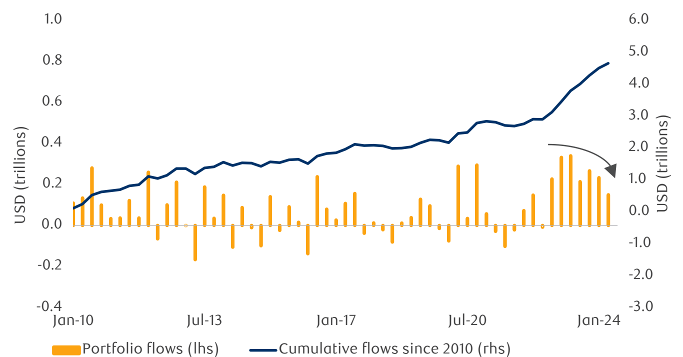
It is clear, however, that as long as Trump's policies are seen to boost investor returns through stronger equity markets and elevated bond yields, the dollar will continue to benefit from capital inflows. The relatively higher interest rates available in the U.S. act as a magnet for capital and explain the lion's share of the U.S. dollar's fluctuations over the past two years (Exhibit 3). While capital inflows slowed somewhat in the first half of 2024 in response to expectations that the Fed would cut interest rates (Exhibit 4), a less dovish Fed next year could prompt a reacceleration of demand for the greenback due to relatively high U.S. yields.

Exhibit 3: USD closely tracks policy interest-rate differential



Note: As at December 4, 2024. Source: Bloomberg, RBC GAM

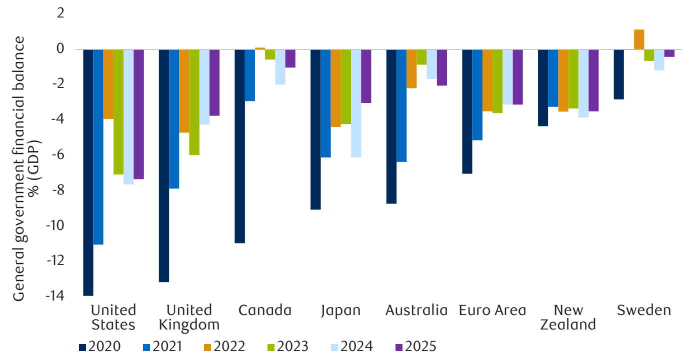
Exhibit 4: Portfolio flows into U.S. assets



Note: Quarterly data as at June 30, 2024. Source: US Bureau of Economic Analysis, RBC GAM

There are limits to how far the dollar can rise given its long-term fundamentals. The currency is already significantly overvalued based on a number of models, and history shows that currencies rarely exceed 20% deviations from fair value. The U.S. fiscal deficit is also troubling, coming in at 6%-7% of GDP, and it's expected to remain much higher than its peers' (Exhibit 5). Yes, the U.S. has the ability to simply print more U.S. dollars in order to repay debt, but it's hard not to question how sustainable current spending levels are without higher taxes. We also caution that, while inflationary policies such as tariffs and fiscal spending may be positive for the greenback in the short term, they risk elevating yields to an extent that economic growth is threatened. So, while it seems likely that the dollar will remain elevated as Trump again assumes the presidency, he may get the weaker dollar he wants without the economic strength that has usually underpinned it.

Exhibit 5: U.S. consistently the biggest fiscal offender

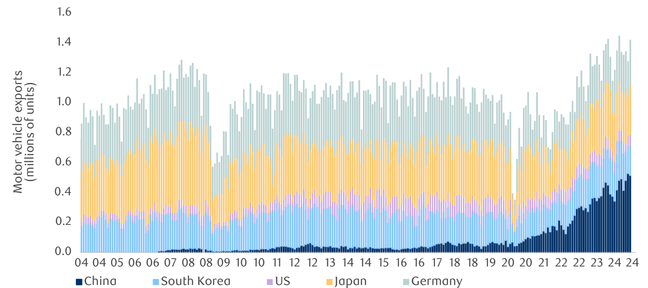


Note: As at December 31, 2023. Source: IMF, RBC GAM

Euro

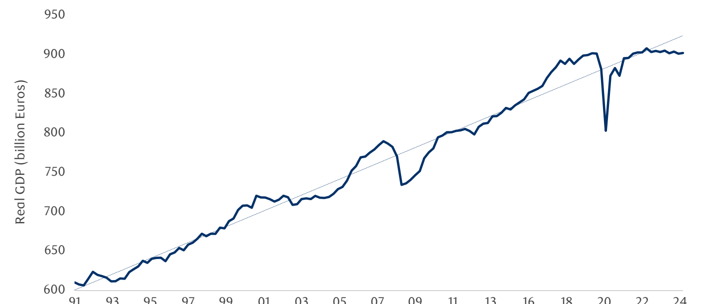
The euro doesn't have many factors working in its favour. Households and companies lack the confidence to spend, demand for exports is soft and eurozone nations can't seem to agree on whether to relax limits on fiscal spending. Economic growth has faltered as a consequence, adding to the structural woes that include a decline in the working-age population, energy insecurity and a loss of market share to Chinese auto manufacturers (Exhibit 6). Germany, the region's biggest automaker, is particularly affected by competition from cheaper Chinese electric vehicles and the country's economy is the same size as it was in 2019 when adjusted for inflation (Exhibit 7).

Exhibit 6: China rapidly gaining share in motor-vehicle exports



Note: As at September 30, 2024. Source: China General Administration of Customs, Korea Automobile Manufacturers Association, BEA, Japan Automobile Manufacturers Association, German Association of the Automotive Industry, RBC GAM

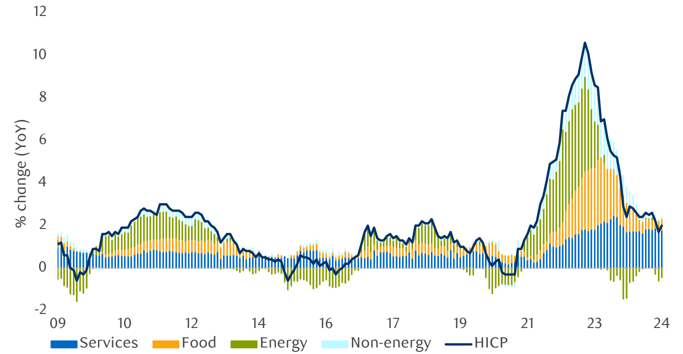
Exhibit 7: German GDP has been stagnant for the past five years



Note: Quarterly data, as at September 30, 2024. Source: German Federal Statistical Office, RBC GAM

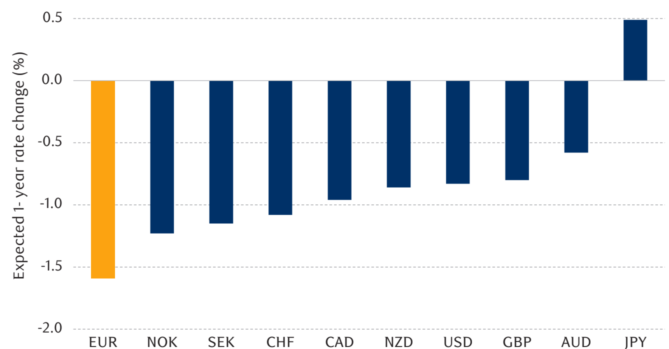
Europe's weaker growth outlook poses an interesting challenge for the European Central Bank (ECB). Unlike the Fed, which must by law pay attention to inflation and growth, the ECB's mandate is singular: to keep inflation at or below 2%. As it happens, the region's October inflation reading came in at exactly 2% after having declined substantially over the past year due to disinflation in food, energy and industrial prices (Exhibit 8). What remains is services inflation, which is much stickier and being propped up by higher wages. It's possible that auto-sector layoffs will temper wage pressures, but it seems unlikely that inflation will continue to fall at a pace that encourages the ECB to cut rates as aggressively as investors expect (Exhibit 9). A scaling back of rate-cut expectations would likely stop the euro from falling to parity with the dollar as many investment banks are now forecasting. We expect that the single currency will remain weak as Trump takes office and as tariff talks intensify. But the euro's attractive valuation and the fact that investor capital has been flowing back into eurozone equities (Exhibit 10) suggest to us that sell-offs beyond parity would be short-lived. By this time next year, we expect the euro to have bottomed and for it to trade at a rate of US$1.09.

Exhibit 8: Eurozone disinflation may stall



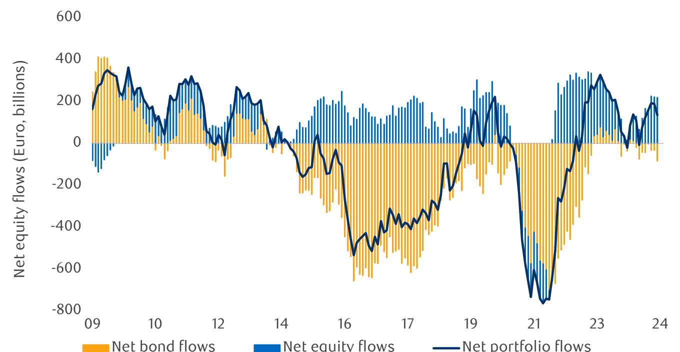
Note: As at October 31, 2024. Source: ECB , RBC GAM

Exhibit 9: ECB priced for most cuts in G10



Note: As at: December 3, 2024. Source: Bloomberg, RBC GAM

Exhibit 10: Continued interest in eurozone equities to support the euro



Note: As at September 30, 2024. Source: ECB, RBC GAM

Japanese yen

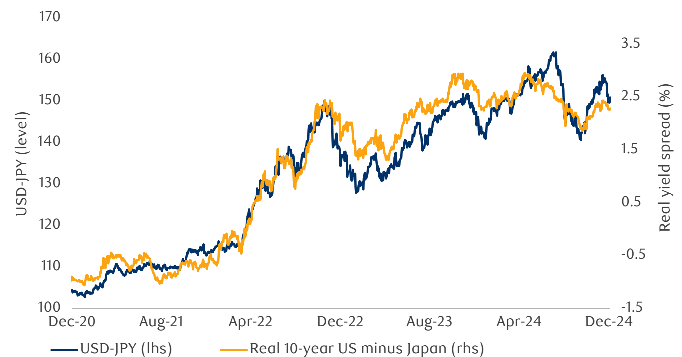
Japan has yet to be named as a target of U.S. tariffs, even though the cheap currency makes the Asian nation an easy choice. Perhaps this is because Trump is working down the list of largest surplus trading partners (Japan's surpluses with the U.S. rank sixth behind China, Mexico, Canada, Vietnam and Germany). Or perhaps the White House sees an opportunity to partner with Japan to strengthen the yen and weaken the dollar. Indeed, this would be aligned with Japanese interests, as the Bank of Japan and Ministry of Finance have intervened on several occasions in 2024 to stem yen declines.

It is questionable whether such intervention would continue to prove successful, however, as it likely would be countered by an increase in U.S. bond yields relative to Japanese yields. The yen is more tightly linked to the gap in yields than any other currency (Exhibit 11), and so is vulnerable to weakness if U.S. interest rates rise on account of higher U.S. inflation. This effect may be muted somewhat by developments in the Japanese bond market where the landscape has quietly changed in a way that allows Japanese yields to rise. The BOJ, for instance, has stopped buying Japanese government bonds and has begun raising interest rates, two forces that had anchored yields at very low levels. A further rise in interest rates could be stoked by mounting wage pressure (Exhibit 12) and the impact of prior yen depreciation that gets passed through to higher import prices.

A modest increase in the yield of Japanese government bonds could be enough to change the calculus behind investment decisions at some of the country's largest investors. Nomura[1] has outlined plans by Japanese life-insurance companies to repatriate capital and increase allocations to domestic assets. The nine major life insurers are also said to be weighing an increase to hedging on foreign assets now that the cost of doing so has fallen. For now, overall capital flows are still biased toward yen-selling (Exhibit 13), and the yen will struggle to make significant gains until this situation reverses. We have penciled in a more modest gain for the

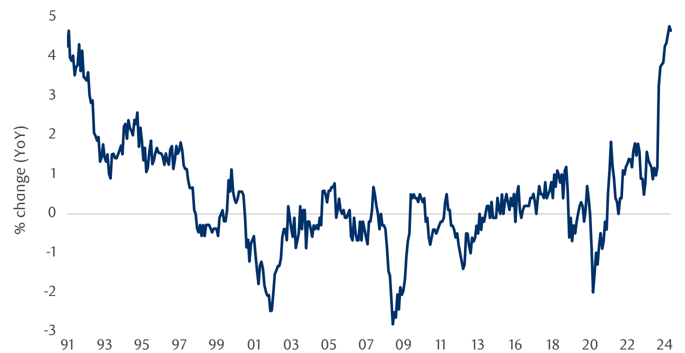
[1] Yujiro Goto, Jin Moteki, Yusuke Miyairi, Tomoki Hideshima. "Major lifers' FX hedge ratios have shown signs of bottoming out", *Nomura JPY Flow Special Report*, November 25, 2024

Exhibit 11: The yen remains closely tied to real yield spreads



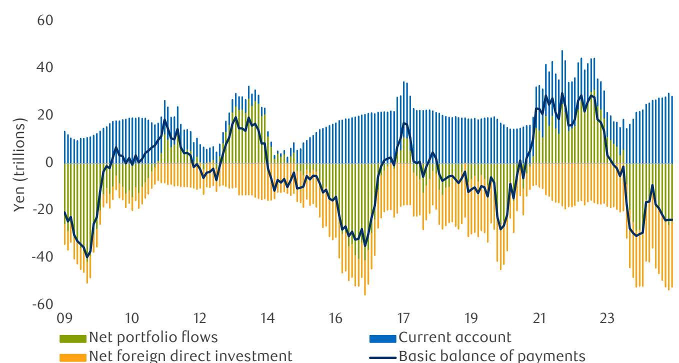
Note: As at December 4, 2024. Source: Bloomberg, RBC GAM

Exhibit 12: Wage pressures remain strong in Japan



Note: Cash earnings for establishments with over 5 employees. As at September 30, 2024. Source: Japanese Ministry of Health, Labour & Welfare, RBC GAM

Exhibit 13: Capital flows still reflect a bias to sell the yen



Note: As at September 30, 2024. Source: BOJ, RBC GAM

Japanese currency than in our previous outlook and now see the yen appreciating to 142 per dollar from 150 at writing. This represents a slightly larger gain than is expected by Bloomberg's survey of forecasters. Concrete evidence of a more supportive shift in capital flows would prompt us to increase our forecast for the yen's advance.

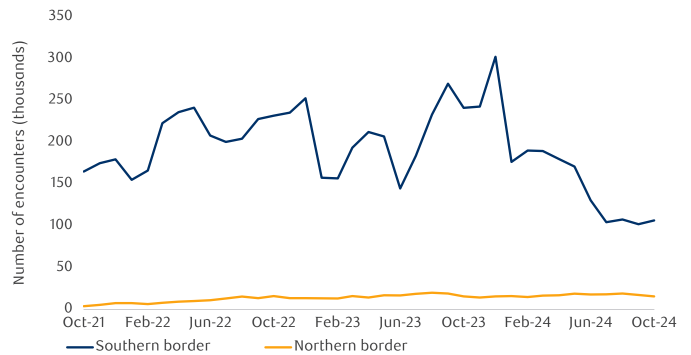
Canadian dollar

The Canadian dollar has weakened by about 3.5% over the past quarter and in November traded outside its well-established range of C$1.32-C$1.40 per U.S. dollar. Most of this weakness occurred prior to the beginning of November, indicating that the currency's move had less to do with the outcome of U.S. elections than the Bank of Canada's (BOC) quickening pace of interest-rate reductions. The BOC started cutting rates sooner than most other developed-market central banks and has eased policy by a percentage point more than the Fed since the summer. This places Canada's short-term interest-rate disadvantage at roughly 1.3%, enough that investors are encouraged to shift investments to the U.S. from Canada.

We are not overly concerned that this depreciation will continue unabated, even in light of Trump's threat to apply a blanket 25% tariff on all Canadian exports to the U.S. Following that threat, the Canadian government was quick to express its willingness to work with the incoming administration to tighten border controls. We wonder how much of that threat was simply showmanship given that Canada hardly registers when compared with Mexico on illegal-immigrant encounters and the influx of fentanyl (Exhibits 14 & 15). It's more likely, we think, that the U.S. would take a targeted approach toward applying tariffs on certain industries such as dairy and lumber. Not only does this approach better fit the narrow set of sectors that make up the bulk of trade between the two countries, but it also avoids scuttling long-standing partnerships in the energy and auto industries.

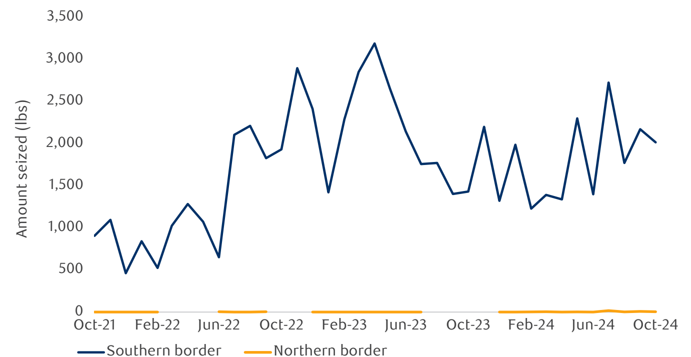
We are not alone in believing that the Canadian dollar will be more stable than other developed-market currencies, with option markets suggesting that the Canadian dollar will experience much less volatility next year (Exhibit 16).

Exhibit 14: Border encounters at the southern border outsrip those at the northern border



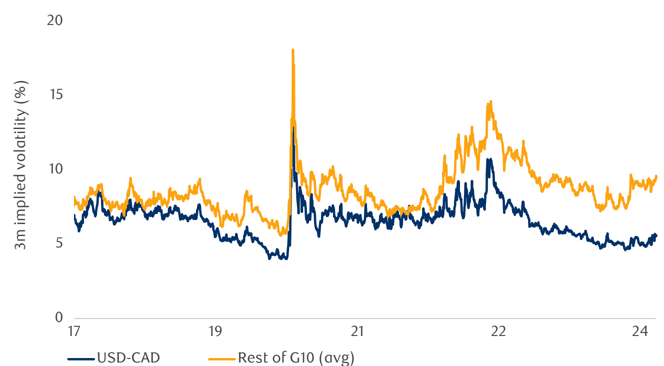
Note: As at October 31, 2024. Source: U.S. Customs and Border Control, Bloomberg, RBC GAM

Exhibit 15: Fentanyl seizures at the Mexican border eclipse those at the Canadian border



Note: As at October 31, 2024. Source: U.S. Customs and Border Control, Bloomberg, RBC GAM

Exhibit 16: Option markets price lower volatility for the loonie



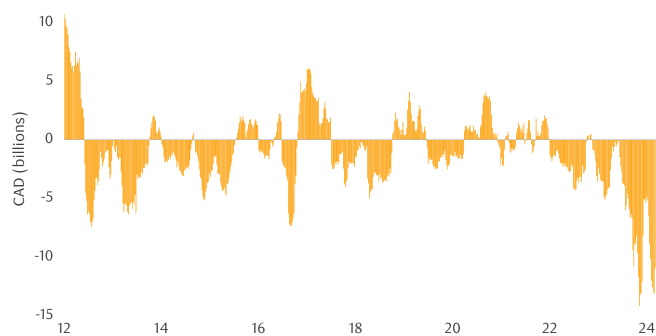
Note: As at December 3, 2024. Source: Bloomberg, RBC GAM

This may reflect the fact that the currency is unlikely to weaken much further from already cheap levels, or simply that Canada is too intertwined with the U.S. economy for its currency to diverge meaningfully.

Another item that could limit the loonie's losses this year is the fact that investors are already bearish on the currency. There has been a clear preference among investors to shun Canadian stocks – visible both in the way domestic investors are allocating money abroad and the pace at which foreigners are liquidating their Canadian holdings. This can be seen as a vote of non-confidence in the Canadian outlook and fits with the prevailing short positions in Canadian-dollar futures (Exhibit 17). But Canada's net balance of capital flows, which combines cross-border trade, foreign direct investment and international financial transactions, has begun to recover in a sign that the intensity of overall Canadian dollars selling pressure has subsided.

We are more optimistic about the outlook for Canada's currency. We note that Canada has smaller fiscal deficits, a skilled workforce and a sturdy banking system, and the expansion of pipeline capacity to west-coast export terminals narrows the discount that Canadian producers must accept for their crude oil. We forecast that the Canadian dollar will strengthen modestly to C$1.36 per U.S. dollar over the next 12 months.

Exhibit 17: Investors are very short the loonie



Note: As at December 3, 2024. Source: CFTC, RBC GAM

British pound

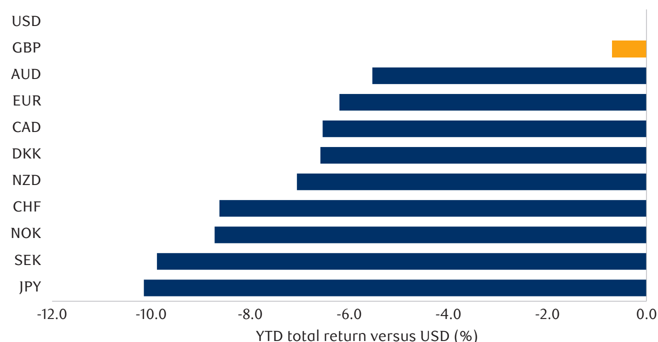
Among major currencies, Britain's pound trails only the U.S. dollar in performance this year (Exhibit 18). The pound has gained on the euro due to expectations that the Bank of England (BOE) will not cut interest rates as quickly as the ECB, and it's notable that the UK 2-year yield has risen since the summer while the equivalent German yield has fallen (Exhibit 19). The BOE's lack of eagerness to consider rate cuts relative to the ECB reflects an underlying inflation rate that is higher than in other regions (Exhibit 20) and the fact that economic growth has been buoyed by fiscal spending. The government will continue to provide a boost to growth in the next fiscal year, thanks to a 70-billion-pound increase in public expenditures in the October budget. The increase in government spending, however, is being financed by higher taxes and more debt – and the risk of higher interest rates that result from this scenario will crimp business investment. But these negatives likely won't weigh on the pound until after our 12-month forecast horizon.

More immediately, the UK stands as an outperformer because its economy is less hampered by many of the elements plaguing continental Europe:

- the UK is less dependent on auto manufacturing and therefore not as threatened by the increase in market share by cheap Chinese electric vehicles.
- With fewer goods exports to the U.S. than big European economies, the UK has largely avoided being the subject of tariff threats by the incoming Trump administration.
- The UK has a healthier mix of energy sources, with a larger amount of domestic nuclear production and relies less on imported energy than other large European economies such as Germany and Italy.

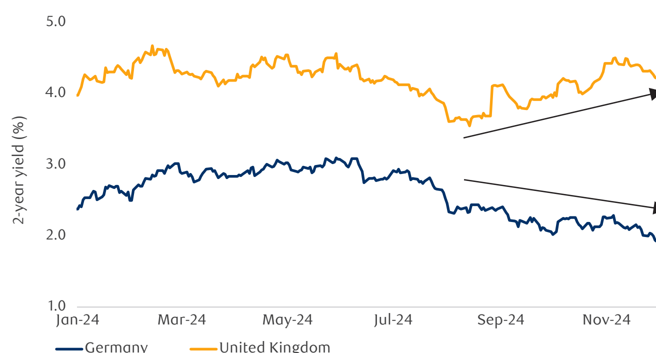
Our main reservations on the pound involve the negative balance of capital flows and the overall strength of the U.S. dollar. We place less emphasis on these two factors and more weight on impact of relative monetary policies, which is one of the most reliable driver of exchange rates. Our forecast for the pound to rise to 1.33 per U.S. dollar from the current 1.26 would make it a marginal outperformer among G10 currencies.

Exhibit 18: British pound stands out from peers



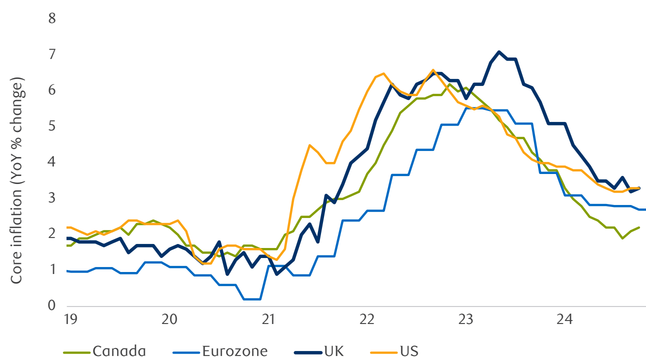
Note: As at December 3, 2024. Source: Bloomberg, RBC GAM

Exhibit 19: UK and German yields began to diverge in the summer



Note: As at December 3, 2024. Source: Bloomberg, RBC GAM

Exhibit 20: Inflation stickier in the UK



Note: As at December 3, 2024. Source: BoC, Eurostat, U.K. ONS, BLS, RBC GAM

Regional outlook – United States

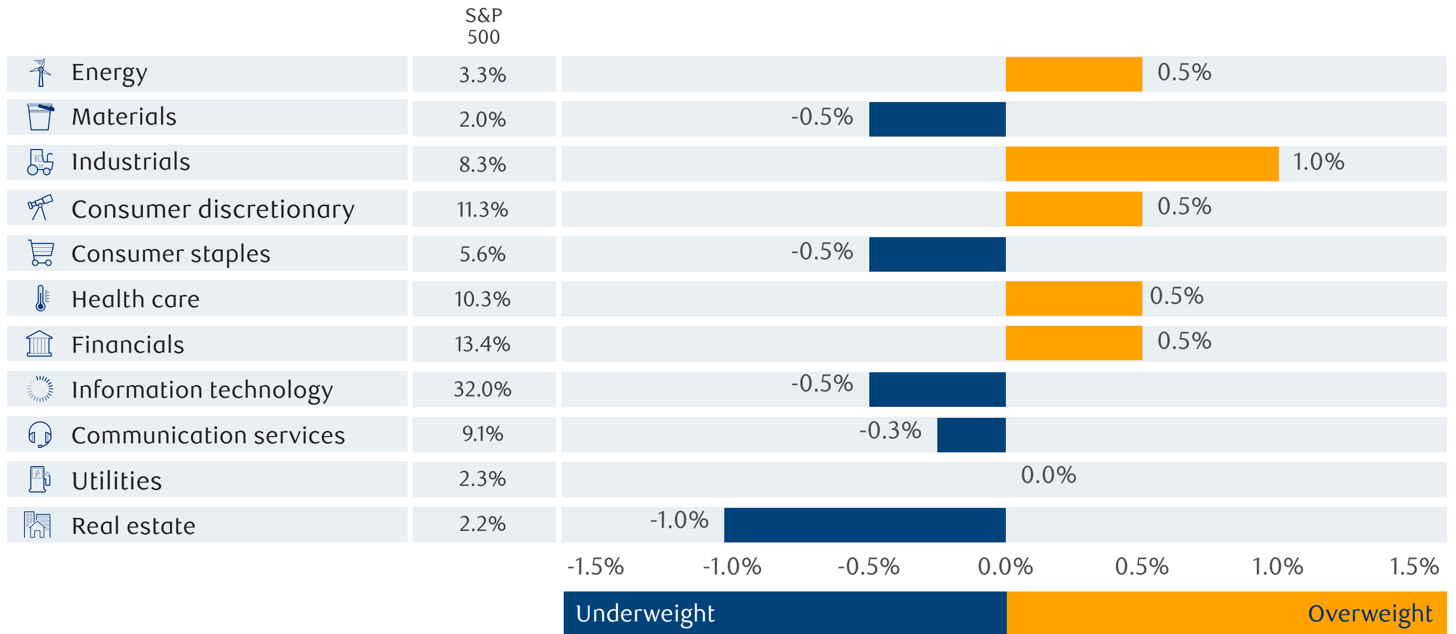
Brad Willock, CFA
Managing Director & Senior Portfolio Manager
RBC Global Asset Management Inc.

U.S. stocks, measured by the S&P 500 Index, returned 7.2% during the three months ended November 30, 2024, driven by better-than-expected earnings growth and economic optimism tied to Republican success in the November elections. Of note was the fact that roughly 60% of the period's returns occurred in the three weeks following the election. The promise of a peaceful transition of government combined with the potential for tax cuts and deregulation drove an acceleration of trends in place prior to the election. The outperforming sectors for the last three months were Consumer Discretionary, led by Tesla and Amazon; banks and brokers in Financials; and the Communication Services, Utilities and Industrials sectors. All sectors recorded gains except for Health Care, which was down on fear that the Trump administration's cost-cutting efforts would reduce access to services. With the S&P 500 up 28.1% so far this year and close to an all-time high, and a new administration set to take over in less than two months, it seems prudent to evaluate the most recent financial results and consider the potential implications of a second Trump term on our portfolios.

Let's begin by examining the implications of the new administration's policies for stocks. In simple terms, Trump's campaign pledged to focus on four major policy areas: immigration; trade (tariffs); tax cuts; and deregulation. The first two, immigration and tariffs, are seen as potential headwinds for the economy. For example, Trump's threat to deport millions of undocumented migrants could disrupt industries such as agriculture, hospitality and construction, all of which rely on migrant workers. A decrease in workers could stoke wages and inflation, forcing the U.S. Federal Reserve to raise interest rates. Meanwhile, the imposition of higher tariffs on imported goods could raise prices and stoke inflation. On the other hand, tax reductions and regulatory rollbacks would generally be good for economic growth. The details matter, so here are the questions we are asking: How aggressive will the U.S. get on deporting undocumented people? How high will tariffs go and will they be levied solely on China, Mexico and Canada, or will they include Europe and/or tariffs on global imports? Will tax cuts and deregulation be enough to offset the likely drags from reduced immigration and tariffs? It's hard to know the answers at this point, but we have observed that investors were quick to price in much of the potential upside from tax cuts and deregulation and without discounting the potential headwinds.

Now let's look at the most recent financial results and evaluate where the U.S. market's largest corporations stand. In the third quarter, earnings-per-share growth for the S&P 500 came in at roughly 8% year over year driven by revenue growth of just over 5%, and that figure was 10% excluding the volatile Energy sector. These results were led by strong

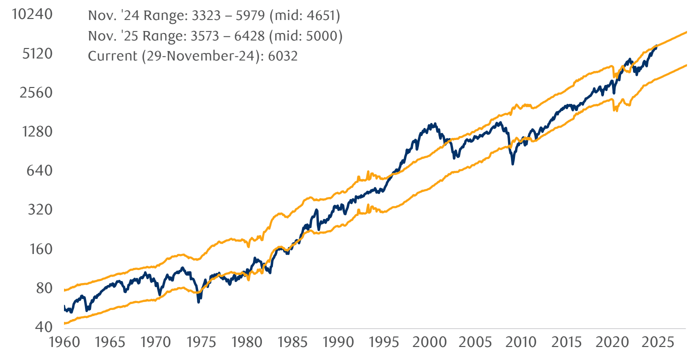
United States – Recommended sector weights



Note: As of November 30, 2024. Source: RBC GAM

> "Consensus S&P 500 earnings estimates for 2025 imply profit growth of almost 13% with cyclical sectors producing double-digit gains."

S&P 500 Equilibrium
Normalized earnings and valuations



Note: The 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

earnings from the Information Technology sector, which rose 24%, and Financials, up 11%, while profits for less cyclical sectors such as Health Care and Utilities were up 14% and 7%, respectively. A strong U.S. dollar, weak commodity prices and an uptick in long-term interest rates pressured the most cyclical sectors as Energy, Materials and Industrials were a drag, with earnings growth down 26%, 7% and 3%, respectively. The Consumer Discretionary sector excluding Amazon generated earnings growth of only 1% on top-line growth of 4% as profit margins continued to narrow due to bloated inventories. Notably, the areas of the economy that are home to the six artificial-intelligence-related mega-caps posted solid results with an aggregate earnings gain of 31%. However, in a sign that expectations for this cohort were very high, only Amazon and Nvidia have outperformed the market since the end of the third quarter. Consensus S&P 500 earnings estimates for all of 2024 imply profit growth of roughly 10%, which seems reasonable, but estimates for 2025 imply profit growth of almost 13% with cyclical sectors producing double-digit gains. Expectations are high and almost everything will have to go right to reach that high bar.

We believe that the rally in stocks has been supported by solid earnings growth and a belief that the potential benefits of tax relief and deregulation will outweigh the potential drags from deportations and tariffs. However, the S&P 500 near 6000 trades at roughly 22 times the next 12 months' estimated earnings, which is the most expensive the market has been since the late 1990s. High valuations at the index level reflect a great deal of investor optimism about the future for AI-related meg-cap stocks, which collectively trade at 30 times forward earnings, and we recognize lofty near-term expectations for the group suggest that new money might be better directed toward small and mid-sized companies as well as more defensive sectors. We have a favourable view of the Utilities, Health Care and Consumer Staples sectors in case the economy slows more than expected. The bottom line is that expectations are high and risks are elevated, so adding more defensive elements to the portfolio makes sense.

Regional outlook – Canada

Sarah Neilson, CFA
Managing Director &
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Managing Director &
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Canada's stock benchmark, the S&P TSX Composite Index, recorded total returns of 10.7% in the three months ended November 30, 2024. In U.S.-dollar terms, the S&P/TSX advanced 6.5%, less than the S&P 500 Index, which advanced 7.2%, but ahead of the MSCI World Index, which gained 4.4%. The S&P/TSX, in U.S. dollars, returned 19.0% in the 11 months ended November 30 versus gains of 28.1% and 21.9%, respectively, for the S&P 500 and the MSCI World.

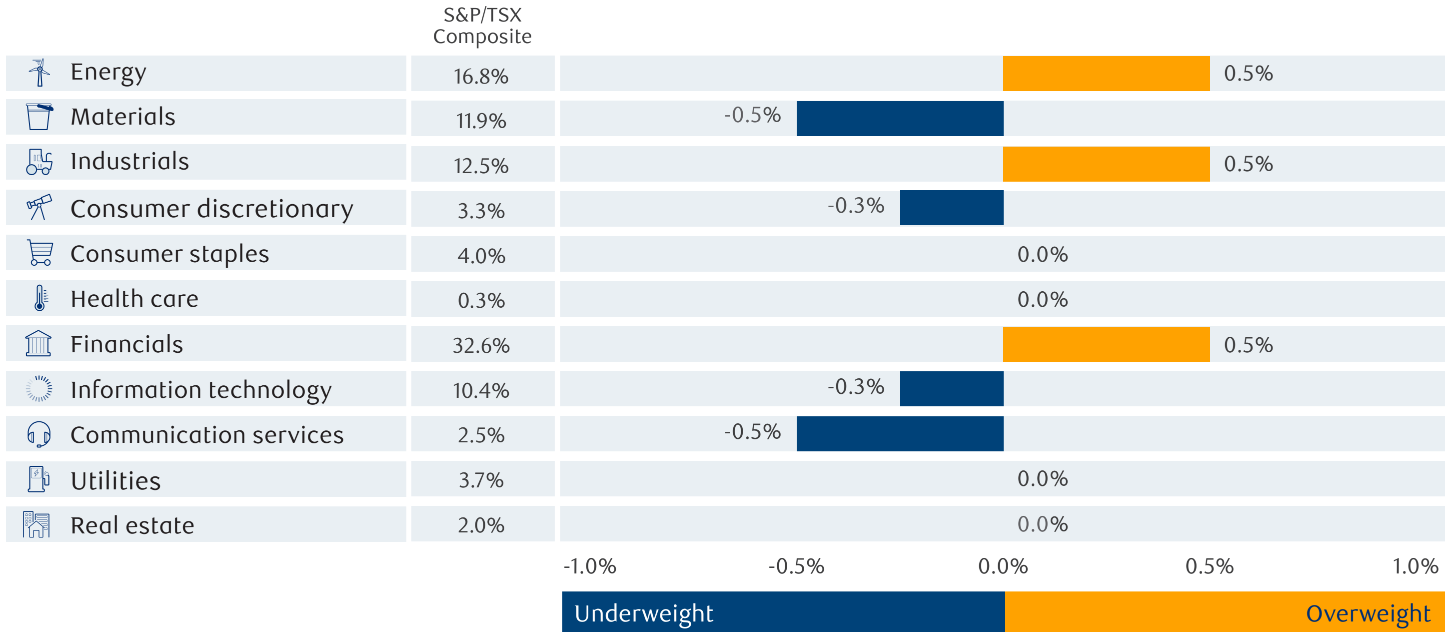
Investor support for equities was bolstered by the resilient economic environment, as developed economies avoided the recession that was forecast at the beginning of the year. Lower interest rates, stronger-than-anticipated consumer spending and surging technology stocks contributed to economic growth and financial-market gains. With inflation easing, central banks in both the U.S. and Canada lowered interest rates, helping to boost equity valuations.

The Bank of Canada (BOC) has eased its policy rate to 3.25% from 5.00% in June 2024, reflecting waning domestic economic growth and inflation. Canada's most recent inflation reading came in at 2%, which is the BOC's target. Price increases for goods have dropped the most. While shelter costs, reflected in rising mortgage payments and rents, remain the biggest contributor to Canadian inflation, they are moderating given lower interest rates. The U.S. Federal Reserve (Fed) has dropped interest rates by a total of 75 basis points this year in light of the domestic economy's resilience. With U.S. short-term interest rates having fallen much less than Canada's, the Canadian dollar has depreciated relative to the U.S. dollar by 5.8% so far this year.

The results of the recent U.S. presidential election increased trade uncertainty as President-Elect Donald Trump has threatened to impose significantly higher tariffs on countries including Canada. Should a higher-tariff scenario play out, there is the potential for a significant economic blow to Canada and further weakness in the Canadian dollar. Continued equity gains will likely depend on further monetary easing in Canada, stable commodity prices and improving economic growth.

Canada's economy started 2024 strongly but softened slightly as the year progressed, with goods and services both slowing along with some offsetting improvement in mining and petroleum output. Analysts are anticipating that Canada's economy will expand 1.1% in 2024, lower than 1.3% growth in 2023, and early expectations are for a stronger economy in 2025 with GDP growth expected to recover to 1.8%. GDP per capita has been declining in Canada given a surge in population at a time of stagnant economic growth. BOC policymakers expect Canada's economy to expand 1.8% in 2024 and anticipate growth of 2.1% for 2025 and 2.3% for 2026, driven by improved consumer spending, population growth and business investment at a time when interest rates are falling.

Canada – Recommended sector weights



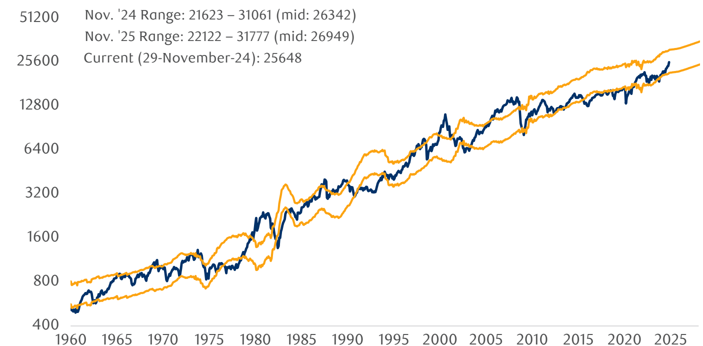
Note: As of November 30, 2024. Source: RBC GAM

Canada's labour market has struggled since 2023. The growing working-age population, the result of surging immigration, has overwhelmed the expansion in available jobs. As a result, unemployment is now at 6.5%, up from 5.0% in 2023. In response to the mounting pressure on employment, housing and infrastructure, the federal government has reduced the number of permanent residents it will accept and is aiming to lower the percentage of non-permanent residents over the next two years.

Important to the economy and profitability of Canada's banks is the condition of the housing market. This year's interest-rate cuts have led mortgage rates lower, helping to ease home-ownership costs and spur housing sales.

The Information Technology sector's 44% gain so far this year has led the S&P/TSX, with Shopify accounting for most of the index increase. The ecommerce provider continues to deliver impressive revenue growth and improving free-cash-flow margins, pushing the stock's valuation to the extreme.

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



Note: The 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

The market's largest sector, Financials, gained 27% as lower interest rates and improved earnings-growth outlooks bolstered performance for most banks. The Materials sector gained 26%, driven by a significant rise in gold prices that surpassed US$2,700 per ounce. Gold producers' stocks gained as investors anticipated the elevated gold prices will substantially enhance margins and cash flows. Looking ahead, expanding producer cash balances are fueling expectations that mergers and acquisitions could play a bigger role in the sector. The Energy sector, Canada's second biggest, benefited from rising crude-oil prices to start the year and optimism about growing demand for Canada's oil and natural-gas resources. The Communication Services sector is the only S&P/TSX sector that has fallen this year, down 18% amid stiff competition and slowing economic growth. BCE Inc. in particular has struggled, with the shares burdened by the company's high debt and an unexpected U.S. expansion.

Current consensus estimates are for S&P/TSX earnings to rise 4.4% in 2024, and another 13.5% in 2025. The Financials sector is expected to drive a large portion of the overall earnings growth given that it makes up over 30% of the index. The Materials sector is also a large contributor to profit-growth expectations amid forecasts that gold prices will continue to rise into next year. The Energy sector is forecast to grow modestly, and Industrials will drive earnings expectations higher. The price to forward earnings multiple of the S&P/TSX has increased to 15.5 and now sits slightly ahead of its long-term average. The index remains at a significant discount to the S&P 500, which is valued at 22 times forward earnings, influenced higher by several large, highly valued technology stocks.

Canadian bank stocks have delivered an 18.3% return year-to-date, trailing the S&P/TSX by 4.1 percentage points. Canada's big banks delivered mixed results for their fiscal fourth quarters. Royal Bank of Canada and Canadian Imperial Bank of Commerce reported solid results, while earnings at Toronto-Dominion Bank and National Bank of Canada were less well received by investors.

Consensus expectations for the Big 6 banks project earnings growth of 6% in 2025 and 10% in 2026, a notable improvement after nearly three years of stagnation. This resurgence in growth potential, even with elevated valuations (the group currently trades at 12.0 times forward P/E), suggests banks could sustain their momentum as earnings recover.

Provisions for credit losses are expected to remain elevated over the next two to three quarters. However, this headwind could ease in the latter half of 2025 as the BOC continues on its rate-cutting path. That said, the labour market remains a key risk. While lower interest rates may alleviate pressure on Canadian consumers, rising unemployment could undermine their ability to service debt.

Investors' eyes are on Toronto-Dominion Bank following its October 2024 guilty plea in a U.S. money-laundering case. The fallout included a multibillion-dollar fine and the unexpected imposition of an asset cap on the bank's U.S. operations, limiting growth until regulators are satisfied with the bank's execution of its remediation plan. This process is likely to be prolonged, leaving some investors cautious. Consequently, the company has underperformed significantly, with its stock down year-to-date, lagging its peers by 25 percentage points.

Canada's Energy sector is up 23.5% this year, while crude oil has dropped by 5% and natural gas is down 11% from the start of the year. Energy producers managed to outperform their related commodities aided by free-cash-flow generation and stock buybacks. The biggest gains in the sector have come from the infrastructure companies, with TC Energy up 45% and Keyera up 44%. A growing acceptance of natural gas as an important fuel to satisfy industrial demand, including rapid data-centre growth, has supported expectations that natural-gas infrastructure will offer decent cash returns.

There is spare crude-oil capacity, global fuel demand is moderating and petroleum markets appear to be anticipating excess supply from OPEC members later this year. Political uncertainty could continue to weigh on Energy-sector profits given domestic carbon taxes, and emissions caps, as well as the potential for higher U.S. tariffs.

Regional outlook – Europe

David Lambert

Managing Director & Senior Portfolio Manager,
Head of European Equities
RBC Global Asset Management (UK) Limited

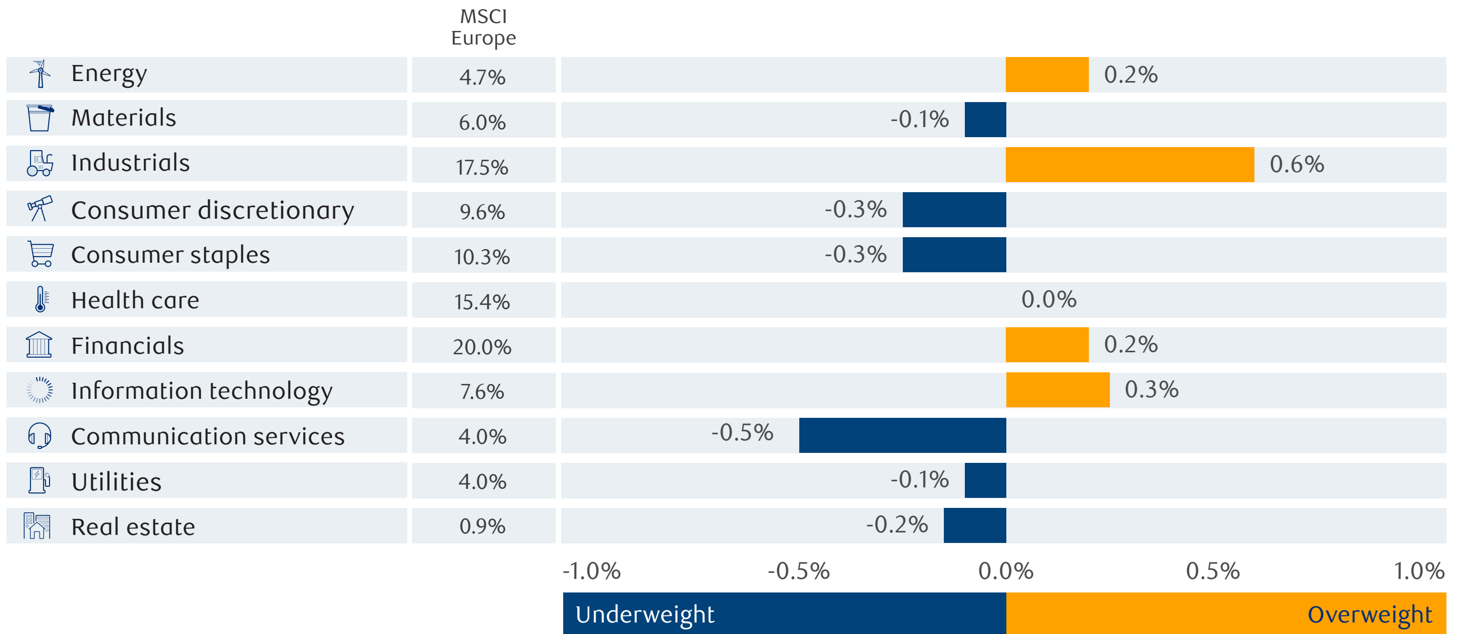
While European economic growth continues to be anemic, financial markets in Europe and elsewhere are gaining due largely to improving U.S. growth and expectations that inflation is on the wane. The macroeconomic situation in the U.S. looks better than many investors had anticipated, but this is not the case in Europe, where purchasing managers' indexes and other statistics suggest the economy remains stagnant. Against this backdrop, investors expect the U.S. Federal Reserve (Fed) to be hesitant in extending interest-rate cuts, while the European Central Bank (ECB) picks up the pace at which it eases monetary policy. Cyclical companies in Europe have outperformed defensive ones, perhaps benefiting from anticipation that the election of Donald Trump as U.S. president will boost global economic growth. We anticipate that we are in the latter stages of lower-quality cyclical strength. However, it may not be a smooth process given uncertainty around tariffs and additional China stimulus. The recent pull-back in the rate-sensitive Utilities and Real Estate sectors looks overdone given prospects for more ECB cuts down the road. Over the medium term, an environment in which rates are falling should benefit companies that show the most promise in delivering high and sustainable cash flows.

We expect labour markets to remain resilient and unemployment low, as even German companies are still reporting labour shortages. An underwhelming supply of appropriate labour also means, if anything, that euro-area unemployment trends lower. Easier monetary policy will provide some relief and therefore we see growth improving back to trend into 2026. That still might not be good enough for some areas of the economy and could raise pressure to ease fiscal constraints, especially in Germany and at the EU level (Europe is in a much better position fiscally than other regions globally). German elections scheduled for February could help to dampen opposition to such fiscal restraint.

Earnings have been coming in better than expected in recent weeks, boosting the investment mood in what was expected to be a less than robust earnings season. Share-price gains have therefore picked up in Europe as more companies report. While analysts in Europe and elsewhere continue to scale back earnings estimates, the recent gains in cyclical stocks indicate that equity markets may be setting up for further improvements in earnings and stock gains.

These developments chime with the recent recovery in lower-quality, higher-risk stocks. We are, however, mindful that macroeconomic indicators in Europe are less rosy than they are in the U.S. and many emerging markets, and so we are taking a balanced approach to constructing the portfolios. This means that we are retaining balanced exposure to quality companies that have dependable earnings and competitive advantages through cheaper cyclical companies.

Europe – Recommended sector weights

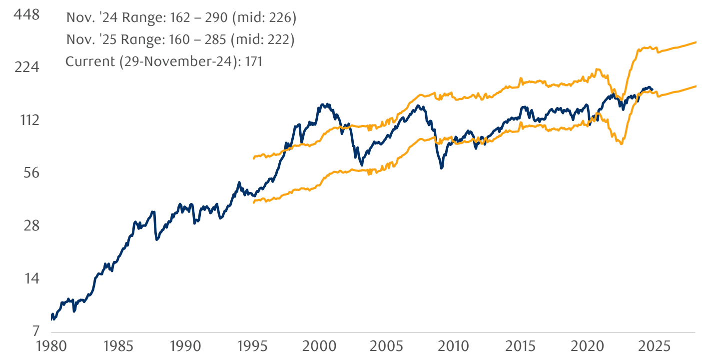


Note: As of November 30, 2024. Source: RBC GAM

> "Expectations for earnings growth in the coming year are 7% to 9%, and a further 10% is pencilled in for 2026."

MSCI Europe Index Equilibrium

Normalized earnings and valuations



Note: The 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

As we move into 2025, we will look for signals that it is time to increase exposure to companies that perhaps offer a bit more growth and risk.

Equity valuations in Europe remain reasonable and look outright cheap compared with U.S. stocks in terms of price-to-earnings ratios and price-to-book values, helping to underpin European markets. Expectations for earnings growth in the coming year are 7% to 9%, and a further 10% is pencilled in for 2026. This scenario supports higher valuations and presents an attractive opportunity for total shareholder returns over the year ahead.

This view is supported by an increase this year in the number of share-buyback announcements, led by the Financials sector, but also in Energy and other cyclical areas. The strong repurchase environment may be a sign of corporations' growing confidence in their earnings prospects and balance-sheet strength in an environment of relatively low valuations. Aside from these fundamental considerations, the overall share count in European markets is falling at its fastest pace in 20 years as repurchased shares are cancelled. We agree with estimates that buybacks will add 2.5% to EPS growth across the region this year and similar amounts in coming years. We know that the long-term compounding effect of buybacks is powerful, and that investors also benefit from reinvested dividends. We should consider that we are witnessing a more shareholder-friendly culture in Europe, and that a trend in this direction could narrow the gap we have seen in total shareholder returns versus the U.S. over the past 20 years.

We are less optimistic about the consumer sectors and at this point see no reason to change this view. For Financials, we must balance the implications of more aggressive ECB rate cuts, which tend to narrow banks' profit margins, with attractive valuations and prospects for faster economic growth. Utilities are currently attractive and will likely continue to be as interest rates come down and valuations remain low.

Regional outlook – Asia

Chris Lai

Portfolio Manager
RBC Global Asset Management (Asia) Limited

Asian equities were broadly flat over the three-month period ended November 30, 2024, underperforming global equity markets. The Chinese stock market was among the best-performing during the period, especially in September and October, as the central government undertook efforts to stimulate the economy. The measures included reducing required reserves for commercial banks to boost lending and cutting mortgage rates to bolster the weak property market. Thailand's stock market also recorded attractive gains on the back of strong investment in electric-vehicle manufacturing, artificial intelligence-related components and data centres. Japanese stocks were broadly flat in the three-month period, as investor enthusiasm was tempered by political uncertainty after the ruling Liberal Democratic Party its parliamentary majority in its worst result in over a decade. Financial-market performance has been especially weak in U.S.-dollar terms given the greenback's strength.

Looking to 2025, the macroeconomic environment has become more challenging for Asian equities after the U.S. elections. Regional growth will likely fall, long-term U.S. interest rates are likely to remain higher, and Asian central banks will probably be forced to lower interest rates less aggressively than if Donald Trump had lost. In this environment, the U.S. dollar should remain stronger given Trump's threat to impose tariffs on China and uncertainty over the tariff situation globally.

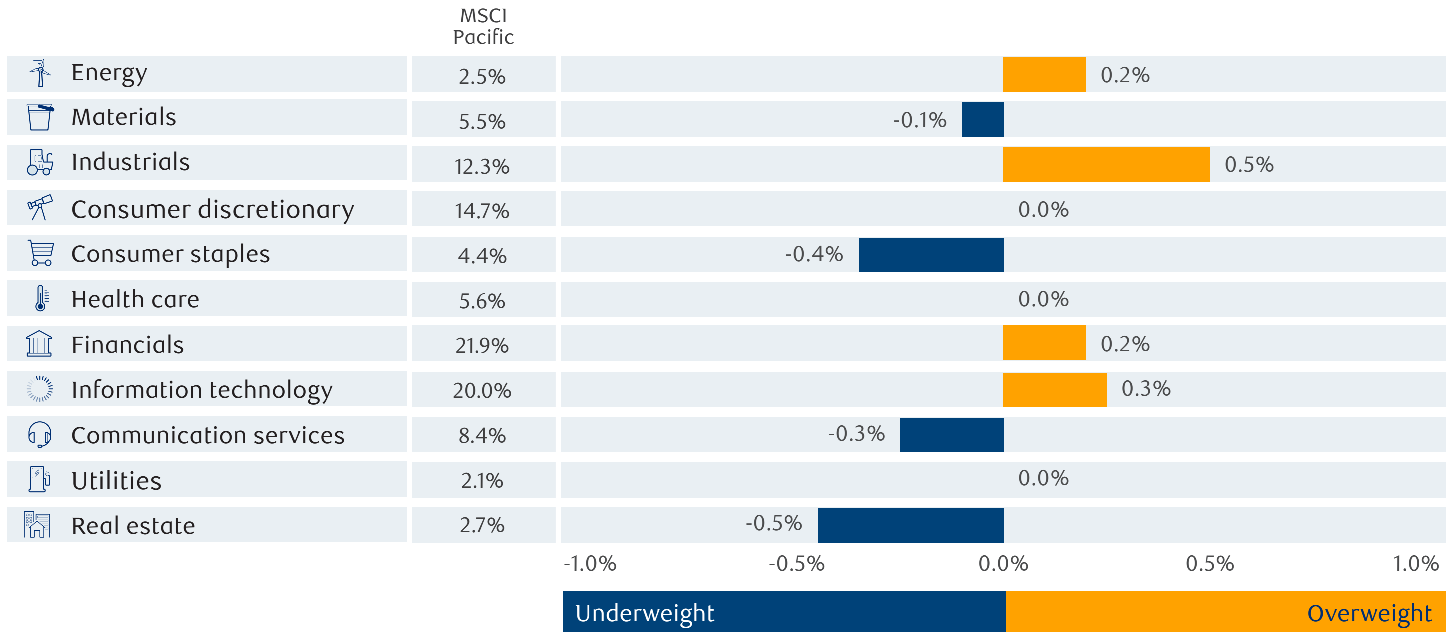
Japan

We are optimistic about the prospects for Japan in 2025 as there is solid macroeconomic momentum, improving policy clarity and continued structural reform. We forecast that the TOPIX, Japan's broad stock benchmark, will deliver 11% aggregate growth in earnings per share, and valuations are reasonable at 14 times forward earnings.

Japan's economy is forecast to deliver 1.2% growth in real (inflation-adjusted) GDP and nominal GDP growth of 3.4% given sustainable inflation. Those figures are above the average growth rates of 0.9% for real GDP and 1.6% for nominal GDP between 2013 and 2019. We expect wages and prices to continue rising modestly in Japan, allowing the Bank of Japan to proceed with gradual rate hikes over the next year. The impact of any tariffs imposed by the new U.S. administration is likely to be a slight negative to Japan and is factored into the 1.2% real GDP forecast.

Corporate-governance reform entered a new phase this year, as the focus spread to include better investor disclosure and restructuring measures that include unwinding cross-shareholdings, sales of non-core assets, and mergers and acquisitions that support industry consolidation. We expect companies to emphasize improvements in returns on equity in 2025.

Asia – Recommended sector weights



Note: As of November 30, 2024. Source: RBC GAM

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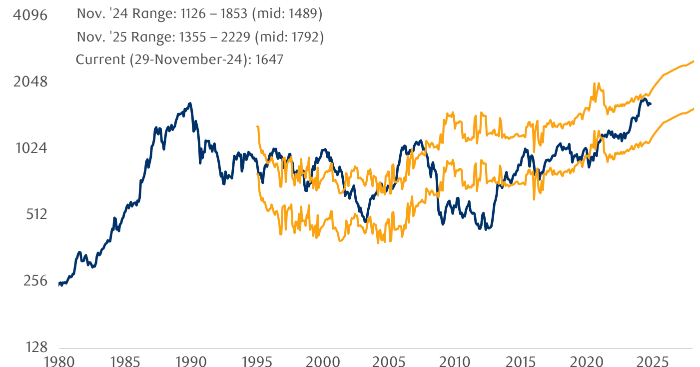
MSCI Japan Index Equilibrium

Normalized earnings and valuations



Note: The 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

Rest of Asia

Asia's dependence on trade means that it is significantly exposed to the negative economic impact of any tariffs that get implemented by the new U.S. government. Domestic consumption, therefore, will be an increasingly important factor for Asia's growth outlook. While consumers are helping to drive reflation in India, policy choices mean that China's deflation challenges will persist. Assuming the U.S. imposes tariff increases on China in phases, the drag will likely be less significant than during the first Trump administration. We forecast that Asian GDP growth excluding Japan will slow to 4.4% in 2025 from 5.1% this year.

Asian economies that are more impacted by U.S. tariffs include China and the export-dependent economies exposed to it, such as South Korea, Taiwan, Australia and Indonesia. Australia and Indonesia are also exposed via the potential for weaker commodity prices if the global economy slows significantly.

In China, real GDP is likely to drop to 4.5% in 2025 from 4.9% in 2024 given assumptions of a 20% increase in U.S. tariffs, which would be offset by policy support, and a weakening in the Chinese currency. Deflation remains the key challenge to the economy, with the consumer price index forecast to rise just 1% next year. The key issue remains that China's policy mix continues to encourage investment rather than consumption, thereby entrenching deflationary pressures. The stimulus measures announced since September have focused on industrial and infrastructure capacity, leading to a further build-up of excess capacity. We believe the solution to the deflation challenge lies in boosting domestic consumption through spending on health care, education and housing.

India's recent GDP momentum has softened amid lower purchasing power in urban areas and fading pent-up demand. Tight monetary policy and the Reserve Bank of India's crackdown on frothy credit are being reflected in fewer personal bank loans, which is leading to growth in shadow banking. On the positive side, higher agricultural production should bolster the rural recovery. India's real GDP growth is forecast at 7.0% in 2024 and 6.9% in 2025.

We assume a gradual slowdown in South Korean economic growth to 1.7% in 2025 from 2.2% in 2024, hurt by a cyclical drop in the country's export-led growth, especially of memory chips. Weakness in domestic demand could persist, driven by falling construction spending. Bright spots in the economy include increased tourism, which has supported services, and the housing market has stabilized. Given stable inflation and the weaker economy, we expect the Bank of Korea to lower the policy rate from the current 3.5% to 2.5% by the end of 2025.

Australia's economy is forecast to expand 1.2% in 2024, which would be the weakest GDP gain outside the pandemic in at least 30 years. Higher interest rates and a decline in real income growth have hurt consumer spending and house construction. Growth has been held up by a COVID-related population surge, but this source of growth is expected to fade. In 2025, we expect GDP to rise to 1.9%, as recent tax cuts have helped consumption. Furthermore, we expect fiscal spending to pick up in March 2025 ahead of a likely election in May. Monetary policy should also boost the economy, as we expect a gradual easing cycle over the next year given that inflation appears to be subdued and the unemployment rate is increasing slightly. It has been 12 months since Australia's central bank last cut interest rates, in contrast with ongoing rate reductions in most developed economies.

Regional outlook – Emerging markets

Laurence Bensafi
Managing Director & Portfolio Manager,
Deputy Head of Emerging Market Equities
RBC Global Asset Management (UK) Limited

Asset class overview

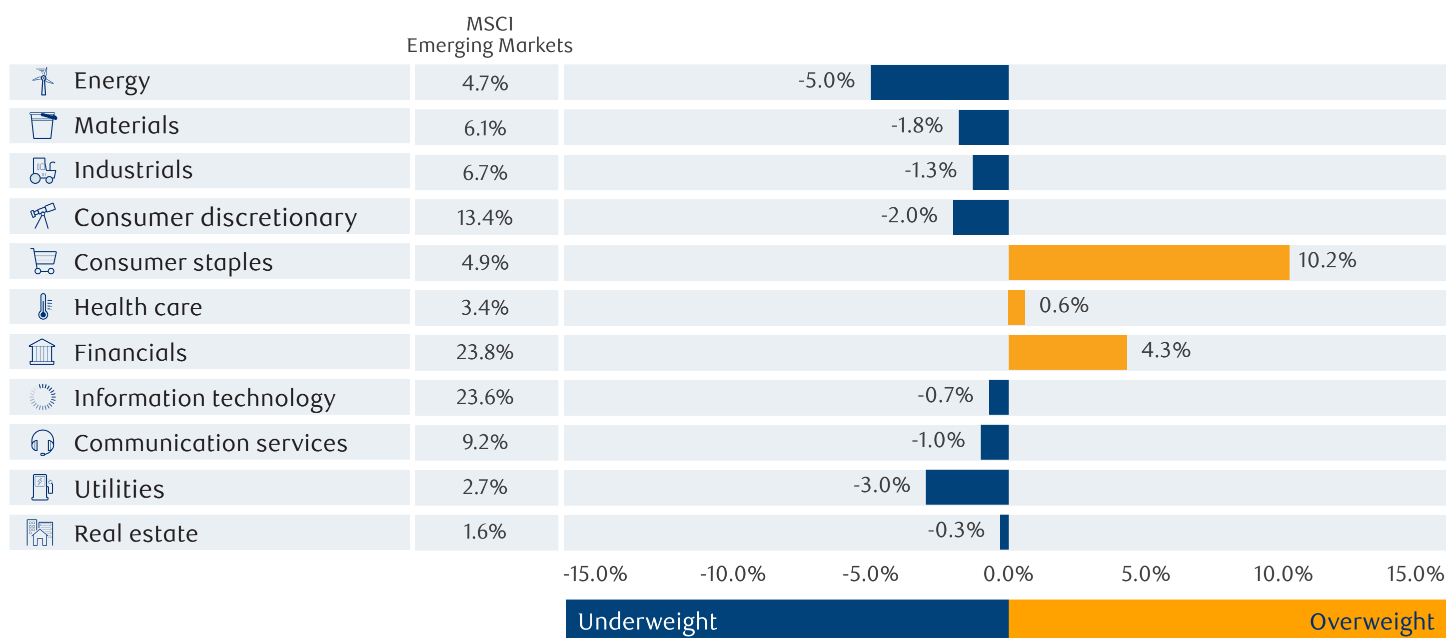
Emerging-market equities have performed well so far in 2024, adding 7.7% through November 30 but underperforming developed countries as the MSCI World Index jumped 21.9% over the same period. Taiwan, with a 29.4% gain, remains the standout emerging-market performer due to its large exposure to technology companies linked to artificial intelligence. Taiwan Semiconductor's weighting in the MSCI Emerging Markets Index has reached almost 10%, and the company entered the top 10 largest companies in the world by market capitalization. More recently, however, we have started to see investors move assets back into China, which has been the best performing country since the central government announced an economic-stimulus package at the end of September.

Outlook

We forecast a volatile period in the coming months as U.S. President-Elect Donald Trump prepares to take power in January 2025. The outlook for emerging markets over the next 12 months is somewhat positive for emerging-market equities for the following reasons:

- Emerging-market currencies have outperformed since the U.S. Federal Reserve started cutting interest rates, and many emerging-market countries have healthy fiscal and trade balances.
- The gap in economic growth favouring emerging markets over developed markets should widen - historically a strong support for emerging markets.
- Emerging-market equities are becoming more diversified, with the dominance of China receding. China's weight in the emerging-market index has dropped to 26% from its 42% peak in 2021. Important emerging markets such as India, Brazil and South Africa are largely immune from the tariff tensions.
- China, which remains the largest emerging market, offers significant potential for gains with a somewhat limited risk of big declines, as the government acts to stimulate growth and fix the property market.
- Emerging markets trade at a 50% discount to developed markets, in terms of price-to-book value, the largest ever discount.

Emerging markets – Recommended sector weights



Note: As of November 30, 2024. Source: RBC GAM

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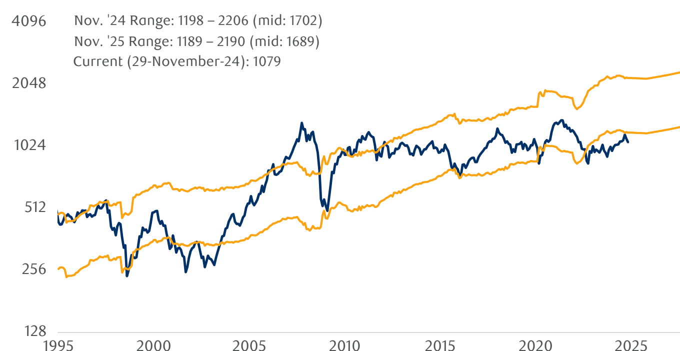
MSCI Emerging Markets Index Equilibrium

Normalized earnings and valuations



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Potential for tariffs

One short-term hurdle for emerging markets is Trump's threat of additional tariffs on Mexico and China. However, we believe that the U.S. fiscal situation, which is characterized by a large fiscal deficit and high debt, could block significant reforms, and we note that China and Mexico can, and have, negotiated trade agreements with Trump.

Moreover, China's exports have remained strong as they were diverted to other regions, and China is building solid trade ties with important countries such as India and Saudi Arabia.

China

China surprised investors in September when it unveiled a broad economic-stimulus package. The abruptness of the move was similar to the way the government handled the removal of COVID measures at the end of 2022. Common to both moves was the population's growing discontent regarding the property market and employment security. Corporations were also feeling the impact of the economic slowdown, especially those tied to domestic consumption. The only engine of significant growth for China this year has been exports, as weak domestic inflation has enabled it to offer goods more cheaply to countries that are dealing with higher inflation and wage gains. However, exports won't be enough to deliver 5% growth in the world's second-largest economy. We expect Chinese equity markets to remain attractive over the short term, as the government rolls out measures to fix the property market and restore consumer confidence. Even with the recent surge in Chinese stocks, Chinese companies remain attractive relative to other emerging markets based on returns on equity and price to book.

Over the longer term, there is a question mark about the ability and willingness of the Chinese government to generate sustainable economic growth without implementing reforms. A rapidly aging population is adding to the challenges the country faces as it seeks to advance from a middle-income country to the status of developed country.

India

India has been the emerging-market success story of recent years, and its stock market remains one of our favourite long-term investments after outperforming the emerging-market stock index by more than 20 percentage points over the past two years. However, Indian stocks have underperformed the broad emerging-market index over the past three months pressured by valuations near all-time highs, and economic indicators and earnings revisions suggest further weakness in the coming months.

South Africa

After years of underperformance, South African equities have rebounded following the unexpected emergence of a business-friendly political coalition from general elections held in May. For the first time ever since the end of apartheid in 1994, the ruling African National Congress failed to win a majority, and party leaders chose to align with the right-leaning Democratic Alliance rather than hard-left parties that in one case called for land expropriation. Since the ANC-DA alliance took power, business and consumer confidence have risen, and even with no significant increase in investment and consumption, 2025 earnings will exhibit a strong cyclical recovery amid an easing in blackouts caused by electricity shortages.

There are a number of challenges standing in the way of boosting South Africa's economic growth above the average 2% level of the past decade, but resolving just a few of those challenges would pay big dividends. Take Transnet, the mismanaged state-owned port and railway operator. Reforms at Transnet would go a long way to restoring exports to 2020 levels and add 1.5 percentage points to the country's GDP. Tourism, which has not recovered to pre-COVID levels, is another example. The government has taken steps that include simplifying the entry process for Indian and Chinese tourists, a move that could multiply 10-fold the number of visitors from the two countries. A return to the 2019 level of arrivals would improve the current-account balance by 0.5% and add almost one percentage point to GDP. We note that South African stocks remain attractive relative to historical averages and compared with the emerging-market index.

RBC GAM Investment Strategy Committee

Members

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management Inc.
Chair, RBC GAM Investment Strategy Committee

Dan Chornous is Chief Investment Officer of RBC Global Asset Management Inc. (RBC GAM), the Royal Bank of Canada's wholly-owned investment management subsidiary. The firm manages assets nearing (CAD) $698.2 billion for institutional, high net worth and individual investors in fixed income, equity and alternative mandates in Canada and around the world. Since joining RBC GAM in November 2002, Dan has been responsible for the overall direction of investment policy and asset management across the firm's global investment platform. Prior to that, Dan was Managing Director, Capital Markets Research and Chief Strategist at RBC Capital Markets.

Dan joined the RBC Global Asset Management board immediately upon his arrival at the firm. In December 2010, Dan joined the board of BlueBay Asset Management following its merger with RBC GAM. He also sits on the board of RBC Global Asset Management (UK) Ltd., is a member of the RBC Pension Investment Strategy Committee and chairs the RBC GAM Investment Strategy Committee (RISC) among others. For many years, Dan has been active in the Canadian investment community. He served on the board of the Canadian Coalition for Good Governance from 2008 to 2020 and as its chair from 2012 to 2016. In addition, he is a member of CFA Society Toronto Advisory Council, a past member of the Toronto United Way major giving cabinet, a former Director of the Toronto Society of Financial Analysts and of the Winnipeg Society of Financial Analysts.

Dan is a graduate of the University of Manitoba (B. Comm, Honours, 1980) and is a member of The Associates, Asper School of Business. In 1985, Dan was awarded the Chartered Financial Analyst designation.

*AUM in CAD as of November 30, 2024

Soo Boo Cheah, MBA, CFA
Managing Director &
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

Based in the U.K., Soo Boo is responsible for managing global fixed-income allocations. He specializes in assessing the impact of central bank policies and global macroeconomic trends on developed-market bonds. In his role as a senior portfolio manager, he integrates a wide range of investment strategies involving interest rates, currencies, and derivatives. Soo Boo started his career in the investment industry in 2000 and holds an MBA from University of New Brunswick. Soo Boo has been a CFA charterholder since 2002.

Dagmara Fijalkowski, MBA, CFA
Managing Director, Senior Portfolio Manager &
Head of Global Fixed Income & Currencies
RBC Global Asset Management Inc.

As Head of Global Fixed Income and Currencies, Dagmara leads a team of 40+ investment professionals in Toronto, London and Minneapolis with almost $100 billion in assets under management. In her duties as a portfolio manager, Dagmara leads management of several bond funds, including the RBC Bond Fund, and manages foreign-exchange hedging and active overlay programs. She leads the Fixed Income Strategy Committee, which determines appropriate levels of risk taking given market opportunities. Dagmara is a member of the RBC Investment Policy Committee, which determines the asset mix for balanced products; and the RBC Investment Strategy Committee. In 2016, she was appointed to the RBC GAM Executive Committee. Dagmara, who began her investment career in 1994, holds an MBA from the Richard Ivey School of Business at the Western University in Canada and a Master's degree in economics from the University of Lodz in Poland. Dagmara has been a CFA charterholder since 1997.

Stuart Kedwell, CFA
Managing Director,
Senior Portfolio Manager & Head of Equities
RBC Global Asset Management Inc.

Stu co-leads the North American Equity team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities in the firm's Generalist program, a two-year internship in which participants rotate through different areas of the firm. In 1998, he joined the RBC Investments Portfolio Advisory Group, which provides investment ideas and recommendations to RBC DS Investment Advisors. He was also a member of the RBC DS strategy & focus list committees. Stu has been with the firm since 2002 and is a CFA charterholder.

Eric Lascelles
Managing Director &
Chief Economist
RBC Global Asset Management Inc.

Eric is the Chief Economist for RBC Global Asset Management Inc. (RBC GAM) and is responsible for maintaining the firm's global economic forecast and generating macroeconomic research. He is also a member of the RBC GAM Investment Strategy Committee, the group responsible for the firm's global asset-mix recommendations. Eric is a frequent media commentator and makes regular presentations both within and outside RBC GAM. Prior to joining RBC GAM in 2011, Eric led a team of economists and fixed income strategists at another large Canadian financial institution. He began his career as a research economist for a federal government agency.

Scott Lysakowski, CFA
Managing Director & Senior Portfolio Manager
Head of Canadian Equities (Vancouver)
RBC Global Asset Management Inc.

Scott is Head of the Vancouver-based Canadian Equity Team. He is primarily responsible for overseeing equity research and portfolio management of the firm's core Canadian equity strategies. Scott also serves as lead manager for the Canadian income strategies. Scott began his investment management career with the firm in 2002 as a senior research analyst and portfolio manager within the Toronto-based Canadian Equity Team. He transitioned to the Vancouver team seven years later and assumed his current leadership role in 2012. During his tenure with the organization, he has conducted research for and managed a broad spectrum of Canadian equity portfolios, specializing in dividend and income mandates.

Hanif Mamdani
Managing Director &
Head of Alternative Investments
RBC Global Asset Management Inc.

Hanif Mamdani is Head of both Corporate Bond Investments and Alternative Investments. He is responsible for the portfolio strategy and trading execution of all investment-grade and high-yield corporate bonds. Hanif is Lead Manager of the PH&N High Yield Bond and Alternative strategies, including a multi-strategy hedge fund. He is also a member of the Asset Mix Committee. Prior to joining the firm in 1998, he spent 10 years in New York with two global investment banks working in a variety of roles in Corporate Finance, Capital Markets and Proprietary Trading. Hanif holds a master's degree from Harvard University and a bachelor's degree from the California Institute of Technology.

Bryan Mascoe, CFA
Managing Director & Senior Portfolio Manager
Co-head, Fixed Income (Vancouver)
RBC Global Asset Management Inc.

Bryan is co-Head and a senior portfolio manager on the PH&N Fixed Income Team. He co-manages the investment-grade credit research effort. As part of this role, he manages our dedicated corporate bond portfolios and is responsible for performing credit analysis on investment-grade issuers. He also assists with the strategy and trade execution of corporate bonds held in broader short, universe, and long fixed-income mandates. Bryan has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2005.

Sarah Riopelle, CFA
Managing Director, Senior Portfolio Manager &
Head, Investment Solutions
RBC Global Asset Management Inc.

Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions which totals $180 billion in assets. She is a member of the RBC GAM Investment Strategy Committee, which sets global strategy for the firm, and the RBC GAM Investment Policy Committee, which is responsible for the investment strategy and tactical asset allocation for RBC Funds' balanced products and portfolio solutions. In addition to her fund management role, she works closely with the firm's Chief Investment Officer, ensuring that all aspects of the investment management function at RBC GAM are running smoothly. She is co-chair of the RBC Wealth Management Diversity Leadership Committee – Canada, as well as a member of the Dean's Advisory Board for both the Telfer School of Management at the University of Ottawa and the Faculty of Management at Laurentian University.

Sarah joined RBC Global Asset Management in 2003 and held roles in Investment Strategy and Canadian Equities before assuming her current responsibilities in 2009. Prior to joining RBC GAM, Sarah worked at RBC Capital Markets in both the Quantitative Research and Investment Strategy groups. She began her career in the investment industry in 1996 after graduating from the University of Ottawa with a Bachelor of Commerce degree, majoring in Finance and International Management. She was awarded the Chartered Financial Analyst designation in 2001.

Martin Paleczny, CFA
Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Martin Paleczny, who has been in the investment industry since 1994, began his career at Royal Bank Investment Management, where he developed an expertise in derivatives management and created a policy and process for the products. He also specializes in technical analysis and uses this background to implement derivatives and hedging strategies for equity, fixed-income, currency and commodity-related funds. Since becoming a portfolio manager, Martin has focused on global allocation strategies for the full range of assets, with an emphasis on using futures, forwards and options. He serves as advisor for technical analysis to the RBC GAM Investment Strategy Committee.

Kristian Sawkins, CFA
Managing Director & Senior Portfolio Manager
Co-head, Fixed Income (Vancouver)
RBC Global Asset Management Inc.

Kristian is co-Head and a senior portfolio manager on the PH&N Fixed Income team, specializing in universe and short-term bond mandates. He is also a member of the PH&N IM Asset Mix Committee. Kristian joined Phillips, Hager & North Investment Management in 2002 as an associate analyst with the Canadian Equities Team and moved to the Fixed Income Team in 2005. Prior to joining the organization, Kristian spent three years at a major investment bank in New York across a few different roles. Kristian has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2002.

Jaco Van der Walt, DCom
Managing Director & Global Head of
Quantitative Research & Investments
RBC Global Asset Management Inc.

As Head of Quantitative Investments, Jaco leads an experienced team that is driven to continually innovate across all its capabilities, including research, portfolio management, data and systems to leverage the combination of human and machine in investment decision-making. He previously held an executive role at one of South Africa's largest financial services companies, leading the Investment Management Office, with experience spanning pensions, insurance, banking and wealth management. As asset owner, he also chaired the boards and investment committees of several of the company's pension plans, promoting investment excellence and driving transformational change to ensure members reach their retirement goals. Jaco began his investment career in 1996 and holds a Master's degree in Economics from the University of Toronto and a Doctorate from the University of Pretoria.

Milos Vukovic, CFA
Managing Director &
Head of Investment Policy
RBC Global Asset Management Inc.

Milos, who joined RBC in 2003, oversees investment-management activities including new-fund launches, performance analytics and trade-cost analysis. He is also responsible for developing and monitoring investment mandates and implementing tactical asset allocation for the RBC GAM investment solutions. Milos earlier worked for a Big 4 accounting firm and two top-tier securities firms. He earned an MBA at the Schulich School of Business and has held the CFA designation since 2004.

Brad Willock, CFA
Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Brad Willock joined RBC Global Asset Management in July 2002 and is a Senior Portfolio Manager and CFA charterholder. In his current role, Brad has responsibility for RBC Global Asset Management's core and income-oriented U.S. equity strategies. He joined RBC in May 1996 after receiving a bachelor's of commerce degree with distinction from the University of Calgary. Prior to that, Brad obtained a bachelor's of science degree at the University of British Columbia and represented Canada at the 1992 Barcelona Summer Olympics in volleyball.

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