RBC Global Asset Management

One-minute market update

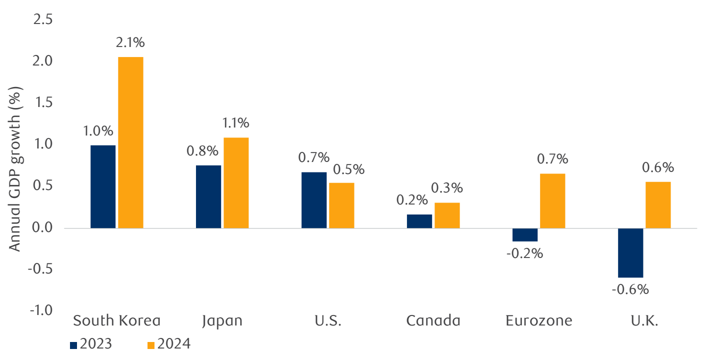
SPRING 2023

The economy has been resilient, and it has been this very strength, combined with inflationary pressures, that has pushed central banks to raise interest rates aggressively over the past year. The sudden and massive rise in interest rates, though, will likely push economies into recession. Although valuations are no longer at extremes, we recognize that risk assets could still be vulnerable should corporate profits falter and/or macro risks intensify.

Economy

- Macroeconomic tailwinds exist in the labour market and consumer spending, China's reopening, Europe's resilience in the face of an energy shock and, until very recently, a slight easing in financial conditions.
- But due to the massive and sudden surge in interest rates over the past year, weakness is being seen in the housing market, rising goods inventories, diminished business confidence and scaled-back capital spending. Moreover, troubles have surfaced in a handful of U.S. regional banks.
- We forecast inflation to fall faster than the market anticipates, although a variety of offsetting forces could keep inflation from suddenly falling back to 2.0%.
- We still expect a recession over our one-year forecast horizon, but our GDP forecasts have been mostly upgraded for 2023, mainly due to the year's better-than-expected start, plus the fact we have pushed our expected timing of recession to the second half of the year from the middle of the year.

RBC GAM GDP forecast for developed markets



Note: As of February 22, 2023. Source: RBC GAM

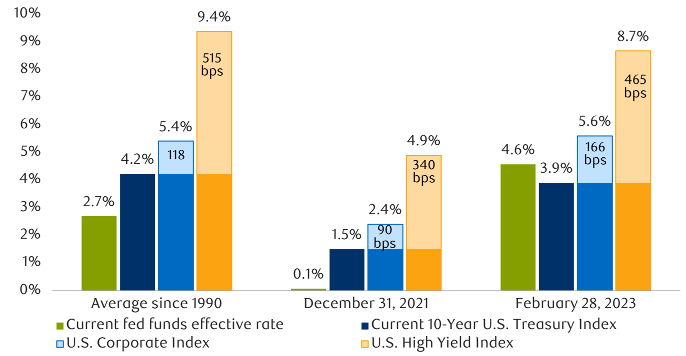
Fixed Income

- After last year's sudden adjustment in fed policy ravaged bond markets, yields are now situated at levels that are more normal in the context of history.
- Remarkably, even though fixed-income markets have suffered massive losses over the past year, yields are not at an extreme. Rather, the adjustment in markets was yields moving away from extreme lows and back to something closer to the averages of the past three decades.
- At current levels, our bond model suggests valuation risk has greatly diminished and the prospect for future returns has improved considerably, especially if we are right in our view that inflation will be coming down.

Equity Markets

- Last year's bear market erased all the overvaluation that existed in equity markets, and has boosted return potential according to our models.
- Our global composite of fair-value models suggests stocks are now 2% below fair value, down from a 32% overvaluation at the time of their late 2021 peak.
- Given that stocks are now much more reasonably priced, we think the bigger risk to markets has to do with corporate profits.
- While we expect that any outright decline in profits might be less severe, we still think earnings estimates are not fully pricing in even a mild recession.

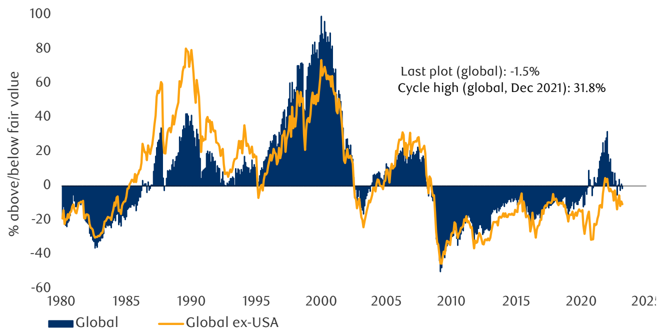
Yield to maturity



Note: Current spread as of February 28, 2023. Shaded areas within the bars indicate the yield spread versus the U.S. 10-year Treasury bond yield. Source: ICE BofA, RBC GAM

Global stock market composite

Equity market indexes relative to equilibrium



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

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Publication date: March 15, 2023

100757 (03/2023)