RBC Global Asset Management

One-minute market update

FALL 2022

Extremely high inflation is jeopardizing four decades of central-bank credibility, and aggressive monetary tightening featuring jumbo-sized rate hikes has triggered broad-based declines in asset prices. Meanwhile, the global economy is slowing, and the path forward for the economy and markets hinges largely on whether/when price stability will be restored.

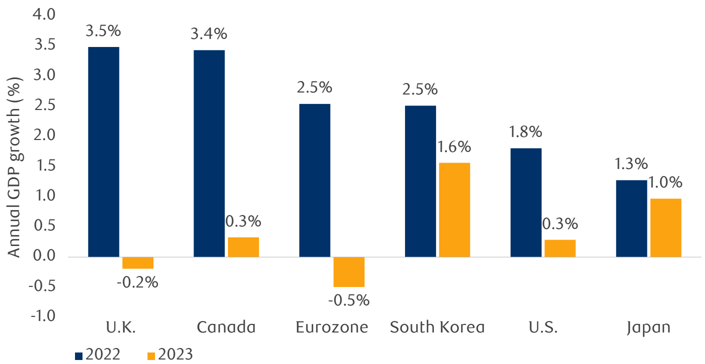
Economy

- Challenges to the global economy include aggressive central-bank rate hikes, extremely high inflation and an energy crisis in Europe stemming from geopolitical tensions. Other risks include China's troubled real-estate market, U.S. politics and the lingering effects of the pandemic.
- Although there are risks that inflation could reassert itself if the pandemic flares or geopolitical tensions intensify, we anticipate substantially lower inflation in 2023 as the major contributors to inflation have all begun to turn.
- We estimate the odds of recession at 70% in North America, with an even greater likelihood in the U.K and Eurozone.
- For the developed world, we now forecast moderate economic growth of 2.3% in 2022, followed by just 0.3% in 2023.

Fixed income

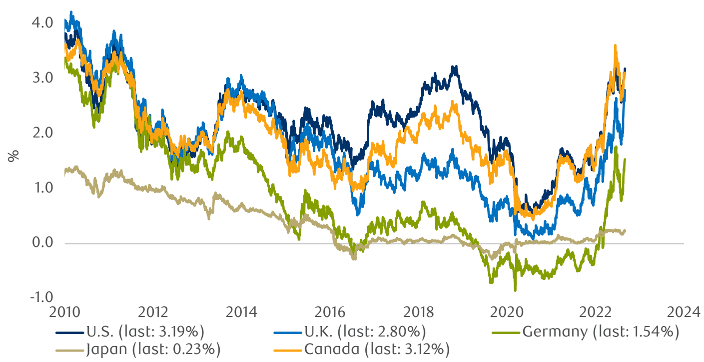
- Rapidly rising interest rates have caused further declines in global government-bond prices, but we believe that any further losses will likely be limited.
- With the massive increase in bond yields so far this year, the acute valuation risk that existed across major developed-world sovereign-bond markets has been greatly alleviated.
- Assuming that the inflation spike subsides as we forecast, our model suggests the U.S. 10-year yield should be positioned near 3.5% in five years. We therefore think that bond investors are more likely to keep their coupons and that the risk of fixed-income capital losses has meaningfully diminished since the start of the year.

RBC GAM GDP forecast for developed markets



Note: As of September 1, 2022. Source: RBC GAM

10-year government bond yields

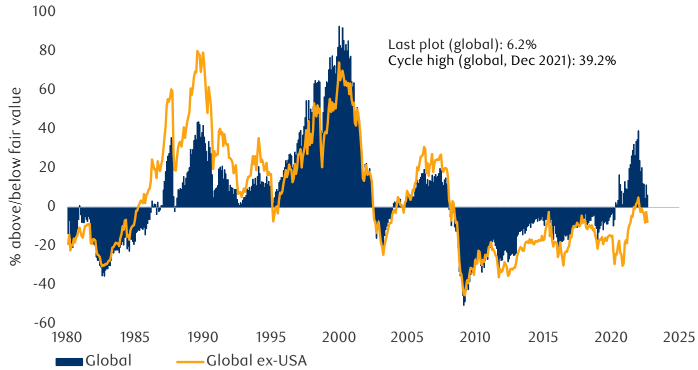


Note: As of August 31, 2022. Source: RBC GAM

Equity markets

- Stocks encountered significant volatility during the quarter as the fluctuating outlook for interest rates and inflation impacted valuations and a more challenging outlook for earnings came into view.
- As a result of the worldwide drawdown in stocks, the excess valuation that existed in our composite of global equity markets has been erased. U.S. equities remain slightly above our estimate of fair value, but stocks in other regions look more appealing.
- Although stocks are more reasonably priced, the focus is shifting to corporate profits which remain well above their long-term trend and may soon encounter headwinds from slowing economic growth, especially if recession were to materialize.

Global stock market composite
Equity-market indexes relative to equilibrium



Note: As of August 31, 2022. GDP-weighted average of RBC GAM fair value models for a variety of countries. Fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

Disclosure

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

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

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

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

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

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

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

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

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

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

Publication date: September 15, 2022

100757 (09/2022)