RBC Global Asset Management

One-minute market update

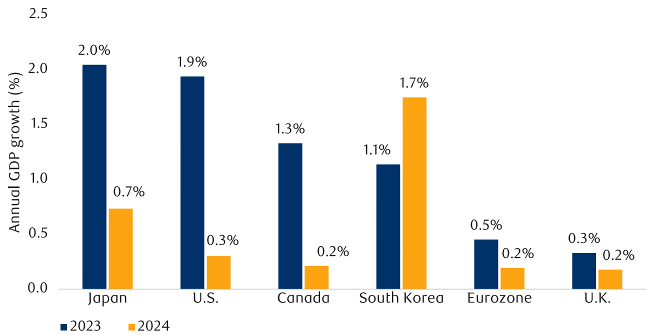
FALL 2023

The global economy has been resilient and a variety of challenges stemming from the pandemic have become less severe. But the lagged impact of aggressive monetary tightening, in our view, is still likely to eventually push the economy into recession and, in an environment of heightened macroeconomic uncertainty, substantial risk taking is unwarranted and patience is critical.

Economy

- Most major economies have continued to expand so far this year but face critical headwinds from China's struggling economy and higher interest rates.
- The window for a recession may just now be opening. We continue to expect a recession in most of the developed world over the year ahead, though its contours should be mild in depth and short in duration.
- Our GDP growth forecasts have mostly been raised for 2023 and lowered for 2024, reflecting better-than-expected economic data during the summer and the deferral of the start of the anticipated recession.
- We believe that inflation can fall faster than the consensus expectation, aided in part by weaker economic conditions, to just above 2.0% by next year.

RBC GAM GDP forecast for developed markets



Note: As of August 24, 2023. Source: RBC GAM

Fixed income

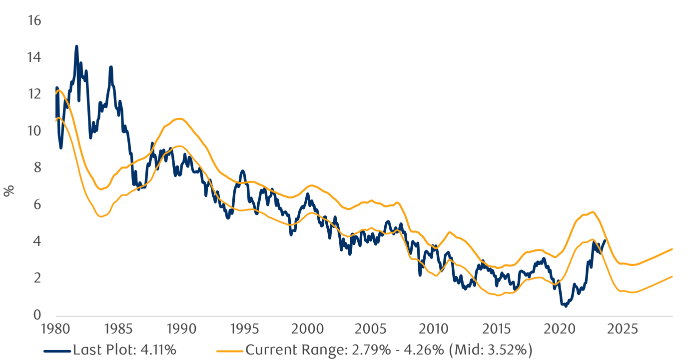
- Government-bond yields have climbed to their highest levels since just before the 2008/2009 global financial crisis and at this point represent attractive value.
- With bond yields at a much higher starting point, the economy likely to weaken and moderating inflation pressures, we believe the risk of capital losses in sovereign bonds is minimal and forecast lower bond yields and thus higher bond prices ahead.
- Sovereign fixed-income assets are the most appealing they have been in many years and we expect that government bonds will deliver returns in the mid to high single digits over the year ahead, with some regions even capable of low double-digit returns.

Equity markets

- Global stocks extended their gains in the past quarter, but their performance so far this year has been increasingly concentrated to the "Magnificent 7", a group of the largest U.S. publicly listed companies that have benefitted tremendously from emerging trends in artificial intelligence.
- Underlying stock market breadth has been relatively poor – often an indication that the economy is struggling or set to weaken.
- Although global equity-market valuations are not unreasonable, earnings are vulnerable to a contraction in economic activity, limiting potential upside in stocks.
- We expect low-to-mid-single-digit returns for stocks, with relatively worse outcomes from U.S. equities due to their higher valuations and the influence of expensive mega-cap technology names that could falter if the economy entered a downturn.

U.S. 10-year T-Bond yield

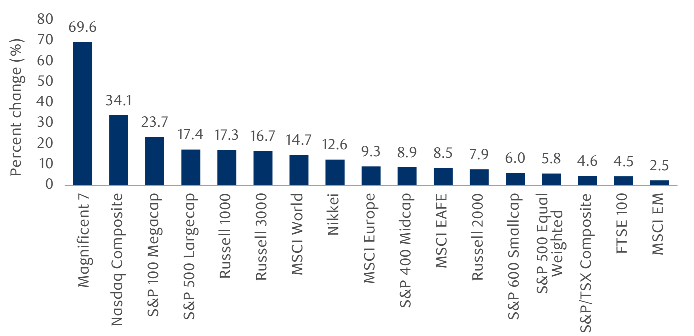
Equilibrium range



Note: As of August 31, 2023. Source: RBC GAM

Major indices' price change in USD

December 30, 2022 to August 31, 2023



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

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