

One-minute market update



NEW YEAR 2022

Moderating growth, the new Omicron virus variant and fading monetary stimulus have agitated financial markets. Underlying economic conditions remain good by historical standards and corporate profit growth has been stellar, but the backdrop is shifting and enthusiasm for the recovery has diminished.

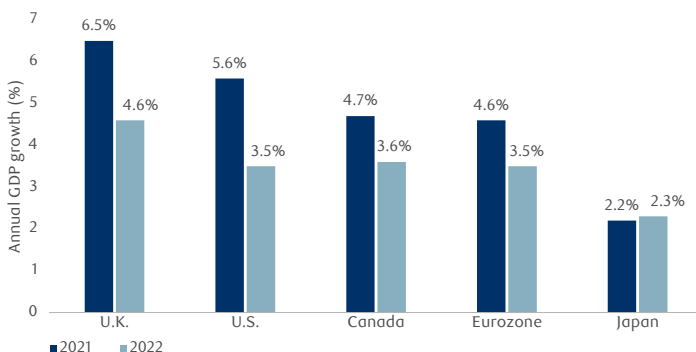
Economy

- A new coronavirus variant, problematically high inflation, supply chain challenges and China’s property-market slowdown are among the main headwinds facing economies.
- Policy makers are acknowledging that the recovery is well-advanced, allowing for a gradual dialing back of monetary accommodation and less generous fiscal support.
- Strong consumer finances and increased business capital expenditures could continue to support the expansion.
- We look for 3.5% growth for most developed nations in 2022, which is nearly twice the pre-pandemic norm but diminished relative to 2021 and somewhat below consensus.

Fixed Income

- Sovereign bond yields began the year on a rapid upward trajectory but declined toward the end of the period as slowing growth and mounting concerns about the Omicron variant boosted the appetite for safe havens.
- Our models continue to suggest that yields are too low and that the key to higher yields lies in the eventual normalization of real interest rates to levels at or above zero.
- Real rates are currently deeply negative, meaning sovereign-bond investors are accepting a guaranteed loss in purchasing power after adjusting for inflation, and we don’t think this situation is sustainable.
- Our own forecast is 1.80% for the U.S. 10-year yield over the next 12 months.

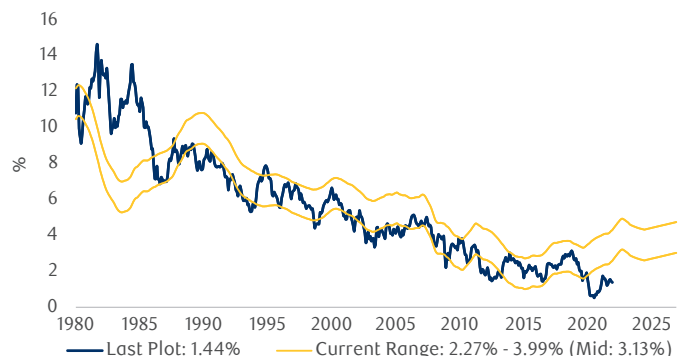
RBC GAM GDP forecast for developed markets



Note: As of November 30, 2021. Source: RBC GAM

U.S. 10-year T-bond yield

Equilibrium range

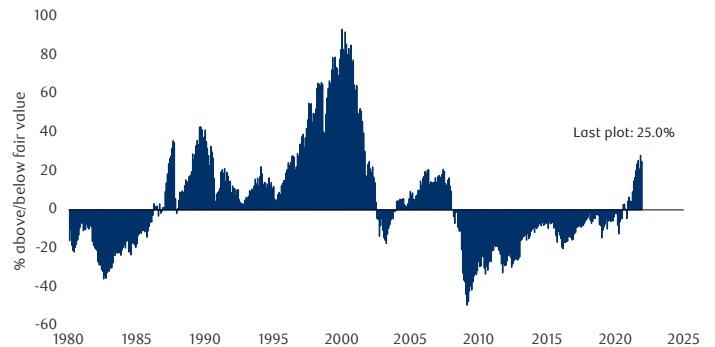


Note: As of November 30, 2021. Source: RBC GAM, RBC CM

Equity markets

- Global equities extended gains from 2020 to record another strong year in 2021, and the rally has pushed our global composite of equity markets to 25% above fair value.
- Continued strong gains in corporate profits will be critical to supporting higher stock prices and earnings have indeed been spectacular.
- Our expectation for nominal GDP growth, even if slower from last year, could continue to support double digit gains in profits next year.
- Stocks could continue to deliver mid-single-digit to low-double-digit gains over the next couple years as long as earnings growth remains solid and investors remain optimistic in a low interest rate and normal inflation environment.

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



Note: As of November 30, 2021. GDP-weighted average of RBC GAM fair value models for a variety of countries. Fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

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