RBC Global Asset Management

One-minute market update

NEW YEAR 2025

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.

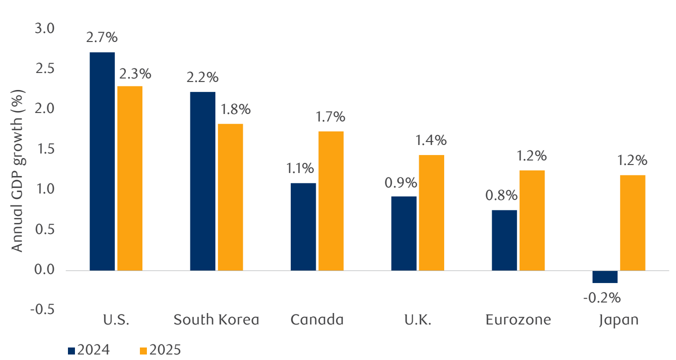
Economy

- The economy has stabilized in recent months as inflation concerns moderate and headwinds created by higher borrowing costs fade amid interest-rate cuts. Recession risk has declined further and we now assign a 75% probability to a soft landing for the U.S. economy.
- Risks to our base case outlook 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.

Fixed Income

- 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.
- 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.
- 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.

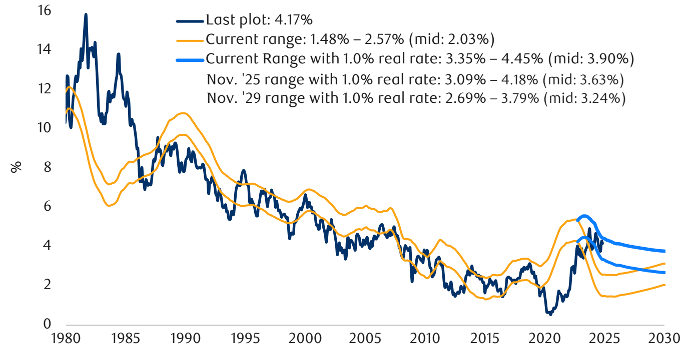
RBC GAM GDP forecast for developed markets



Note: As of November 6, 2024. Source: RBC GAM

U.S. 10-year T-bond yield

Equilibrium range



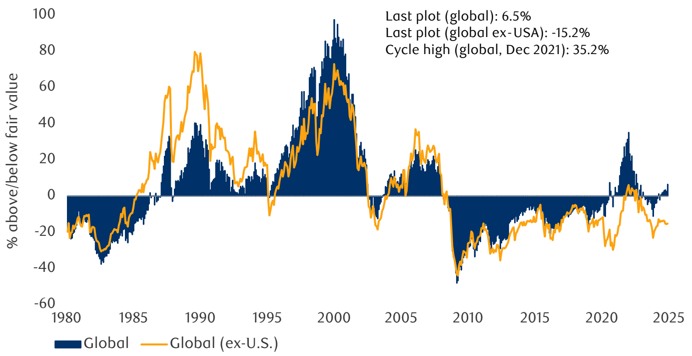
Note: As of November 30, 2024. Source: RBC GAM

Equity markets

- Global equities delivered impressive gains in the past year with the strongest returns generated by U.S. mega-cap technology stocks, but gains began to broaden in the summer as other areas posted 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.
- 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 broad-based improvement in earnings unfolds as analysts' expect, U.S. mid- and small-cap stocks and equities outside the U.S. could finally deliver superior returns.

Global stock-market composite

Equity-market indexes relative to equilibrium



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

Disclosure

For institutional investor use only - not for public distribution

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 GAM Inc.), RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management (UK) Limited (RBC GAM-UK), RBC Global Asset Management (Asia) Limited (RBC GAM-Asia) and RBC Indigo Asset Management Inc. (RBC Indigo), which are separate, but affiliated subsidiaries of RBC.

In Canada, this document is provided by RBC GAM Inc. (including PH&N Institutional) and/or RBC Indigo, each of 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 GAM-US , a federally registered investment adviser. In Europe this document is provided by RBC GAM-UK, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC GAM-Asia, 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 in such information.

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: December 15, 2024

10075
ONE-MINUTE MARKET UPDATE - NEW YEAR 2025 12/16/2024