RBC Global Asset Management

One-minute market update

SUMMER 2022

Economic headwinds continue to mount, inflation remains problematically high and financial conditions are tightening. Asset prices have experienced a sharp decline in the face of rapidly rising interest rates, slowing growth and greater uncertainty in the macro outlook than usual.

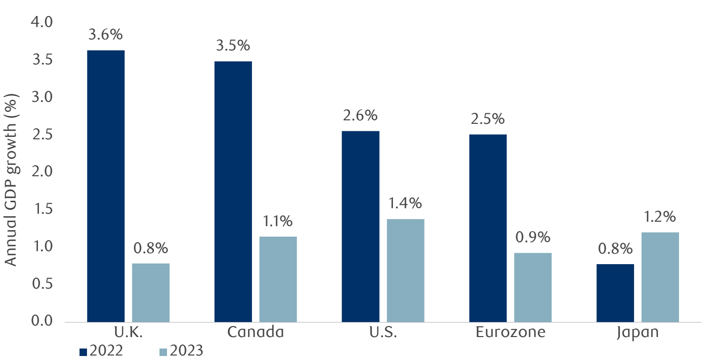
Economy

- This quarter we have reduced our 2022 forecast even further and now expect growth in 2023 to be the weakest in over a decade excluding the 2020 pandemic shock. We gauge that the risk of recession is high over the next two years.
- The key headwinds to the economy include extremely high inflation, aggressive central-bank tightening, a global commodity shock caused by Russian sanctions, supply-chain challenges and damage from China's zero-tolerance COVID-19 policy.
- Inflation pressures are broad-based but we expect them to calm as monetary and fiscal stimulus are dialed back, commodity and housing price growth at least slows.
- We forecast 2.5% GDP growth in 2022 for the developed world, less than half the 5.2% rate achieved in 2021, followed by just 1.2% growth in 2023.

Fixed income

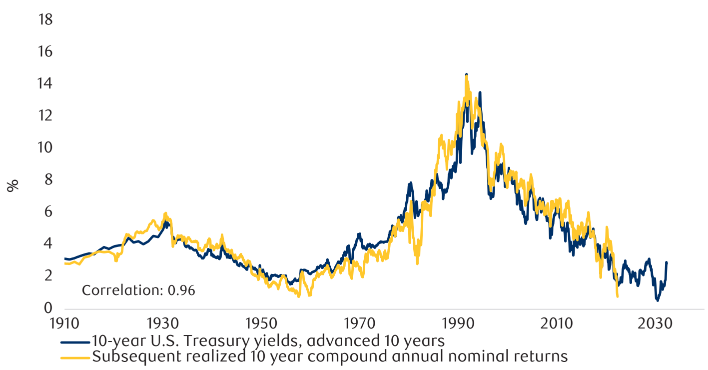
- The rapid and significant re-alignment of interest-rate expectations caused a fixed-income sell-off of historic proportions over the past year.
- Valuation risk has been significantly reduced and yields are now at much more reasonable levels, according to our models, which suggests that yields may not need to rise much beyond current levels once near-term inflation distortions pass.
- Our base case is that inflation ultimately moderates which means that the bulk of the needed adjustment in yields has already occurred. We forecast 2.75% on the 10-year yield 12 months from now, which would mean no further sustained capital losses for bond holders over the year ahead.

RBC GAM GDP forecast for developed markets



Note: As of May 25, 2022. Source: RBC GAM

U.S. 10-year Treasury note and returns

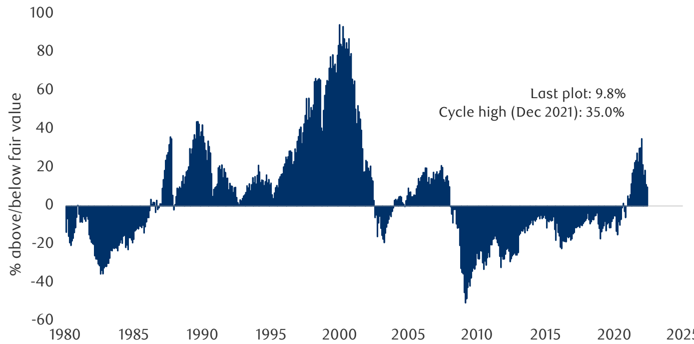


Note: As of June 1, 2022. Source: Deutsche Bank, Haver Analytics, RBC CM, RBC GAM

Equity markets

- Fear of inflation, aggressive monetary tightening and the increased risk of recession sent stocks lower in the past quarter and several major indexes fell into bear markets.
- Equity valuations fell from elevated levels, especially in high-priced technology stocks that were most sensitive to interest rates.
- If consensus estimates for profits come through, inflation pressures subside and investor confidence rebounds from extreme pessimism, stocks could deliver double-digit gains over the year ahead.
- But should a downturn or recession play out, history suggests that earnings could be vulnerable to declines of more than 20%, likely sending stocks lower.

Global stock market composite
Equity market indexes relative to equilibrium



Note: As of May 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: June 10, 2022

100757 (06/2022)