

RBC Global Asset Management

The Global Investment Outlook

RBC GAM Investment Strategy Committee



SUMMER 2024



The RBC GAM Investment Strategy Committee



The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC Global Asset Management. The Committee regularly receives economic and capital markets related input from internal and external sources. Important guidance is provided by the Committee’s regional equity advisors (North America, Europe, Asia, Emerging Markets) and from the Global Fixed Income & Currencies sub-committee. From this, the Committee builds a detailed global investment forecast looking one year forward.

The Committee’s view includes an assessment of global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits and stock prices.

From this global forecast, the RBC GAM Investment Strategy Committee develops specific guidelines that can be used to manage portfolios.

These include:



The recommended mix of cash, fixed income instruments, and equities.



The recommended global exposure of fixed income and equity portfolios.



The optimal term structure for fixed income investments.



The suggested sector and geographic make-up within equity portfolios.



The preferred exposure to major currencies.

Results of the Committee’s deliberations are published quarterly in *The Global Investment Outlook*.

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Executive summary



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Economies have demonstrated resilience in the face of restrictive monetary conditions and inflation has now cooled sufficiently to prompt central-bank rate cuts. Investors have embraced this favourable backdrop, with stocks climbing to record levels. Valuations, however, are at a point where further gains are becoming increasingly dependent on lofty expectations being achieved and heightened investor confidence being sustained.

Economies to grow at modest pace

The global economy has managed to withstand higher interest rates and continue to grow, reinforcing our view that a recession can be avoided over the year ahead. We place the odds at 65% that economies manage a soft landing, with potentially two to five years of further expansion based on our business-cycle analysis. U.S. economic strength coming out of the pandemic was helped by robust consumer spending, bigger-than-expected fiscal stimulus and population growth, but now appears to be moderating while growth in other regions is accelerating. We forecast annualized growth rates of just under 2% across most developed regions and our growth forecasts are mostly a bit above the consensus outlook. For 2025, our growth outlook remains largely the same as a quarter

ago and is approximately in line with the consensus. In emerging markets, our 2024 growth outlook has improved slightly and is ahead of the consensus due to superior expectations for growth in China and India, but we expect growth to decelerate somewhat into 2025. While our outlook is relatively benign, downside risks highlight why a hard landing remains possible. High interest rates continue to weigh on economic activity and there is a chance that inflation remains stuck at elevated levels. Geopolitical risks are also higher than normal with the U.S. election, conflict in the Middle East, China-U.S. tensions and the war in Ukraine all posing sources of uncertainty for economic growth as well as inflation.

Inflation has been sticky, but continues to moderate gradually

After impressive progress between the middle of 2022 and the end of 2023, inflation proved somewhat more stubborn over the first several months of 2024. Stickier prices resulted from higher gasoline costs, still-robust service-sector inflation and – in the U.S. – some seasonal distortions in the first quarter. It is undeniably a more difficult path downward for inflation if economies manage to avoid recession, as they have so far done. But the data

improved in April and May and is moderating once again, if gradually. More-conservative consumers are starting to erode corporate pricing power and retail-level price cuts are becoming more common. We expect inflation to remain high in 2024 given recent upside inflation surprises, but for it to trend downward for the remainder of the year and into 2025. We expect to be well into next year before inflation falls to central bankers' 2% targets.

U.S. dollar resilience is set to fade

We've argued for some time that the U.S. dollar is at the beginning of a longer-term decline that could continue for several years. The currency's persistent overvaluation, relentless U.S. fiscal spending and the threats posed by a second Trump presidency seem to support this longer-term outlook. However, the impact of fiscal spending on short-term growth and inflation means that the Fed is likely to keep interest rates elevated. The U.S. interest-rate advantage over other regions has been the most important consideration

for currency traders this year, and so the dollar's descent is less likely to occur without a drop in interest rates. As government spending is exhausted and as inflation moderates, we expect that the U.S. Federal Reserve will start cutting rates later this year. In this context, any gains in the U.S. dollar from an overvalued starting point are likely to be limited. Over the course of our 12-month forecast horizon, we think the dollar will be pulled lower by a slowdown in fiscal spending, rate cuts and rich valuations.

Central-bank rate cuts have begun

Interest rates are now extremely high by the standards of the past decade and a half, but with inflation declining, central banks are beginning to ease policy rates. A variety of emerging-market central banks have already begun monetary easing and a mounting number of developed-world central banks including the European Central Bank, the Bank of Canada, the Swiss National Bank and Sweden's Riksbank have also begun their rate-cutting journey. The Bank of England could begin easing as soon as August after the UK's

national elections take place. The Fed is patiently waiting given that inflation is higher in the U.S. than elsewhere, but it is likely that the U.S. joins the rate-cutting parade this fall. This pivot by central banks is meaningful, as high interest rates were the main threat to the global economy. The ultimate trajectory to lower rates will be paced by incoming economic and inflation data and, in our view, this rate-cutting cycle should be more gradual than past periods of easing in the absence of an imminent recession catalyst.

Sovereign bonds offer decent return potential, minimal valuation risk

Bond yields have risen slightly in the past quarter as investors weighed the possibility that central banks may ease policy at a more gradual pace than previously expected. At around 4.50%, the U.S. 10-year yield is situated well above the 2.50% level deemed appropriate by our model. But we recognize that our models could be understating the level of real interest rates because they are still picking up the deeply negative real rates experienced during the pandemic. Tighter monetary conditions and rising fiscal deficits suggest that real interest rates may settle at a higher level on a sustained basis. If we assume a 1% real interest rate instead of one near-zero or slightly negative, we could conclude that

the U.S. 10-year yield is more or less appropriately priced for a gradual decline over the years ahead as inflation moderates toward the 2% target from just over 3% currently. We continue to evaluate how our modeling impacts our assessment of the bond market's attractiveness, but we find it difficult to come up with assumptions that would make the bond market look particularly expensive. As a result, our view is that fixed income markets offer decent return potential in the mid single digits and with only modest valuation risk over the year ahead, especially in an environment where central banks are actively cutting rates.

Stocks extend gains, led by U.S. mega-cap technology

Equity markets climbed to new highs in the past quarter, although the biggest gains have been highly concentrated in a small group of mega-cap technology stocks that have benefited from trends in artificial intelligence. The Magnificent 7 were up 24.6% from the beginning of the year to the end of May, helping lift the market-cap-weighted S&P 500 by 10.6% over the same period. But the equal-weighted version of the S&P 500, which represents the performance of the average stock, is up slightly less than half that at 4.8%. Other areas underperformed the S&P 500, especially emerging markets, Canadian equities and U.S. small-cap stocks, all of which have delivered low single-digit returns so far this year in U.S.-dollar terms. While the S&P 500 is close

to one standard deviation above our modelled estimate of fair value, other major indices in Europe, Canada, the UK and emerging markets are close to or more than one standard deviation below their own fair values. As a result, global equity markets could offer attractive returns should economic and corporate-profit growth remain positive. A lot of the good news is already priced into the U.S. large-cap equity market and expectations are high. The current combination of strong nominal earnings growth, continued expansion in profit margins and elevated investor confidence is becoming increasingly critical to sustaining the bull market.

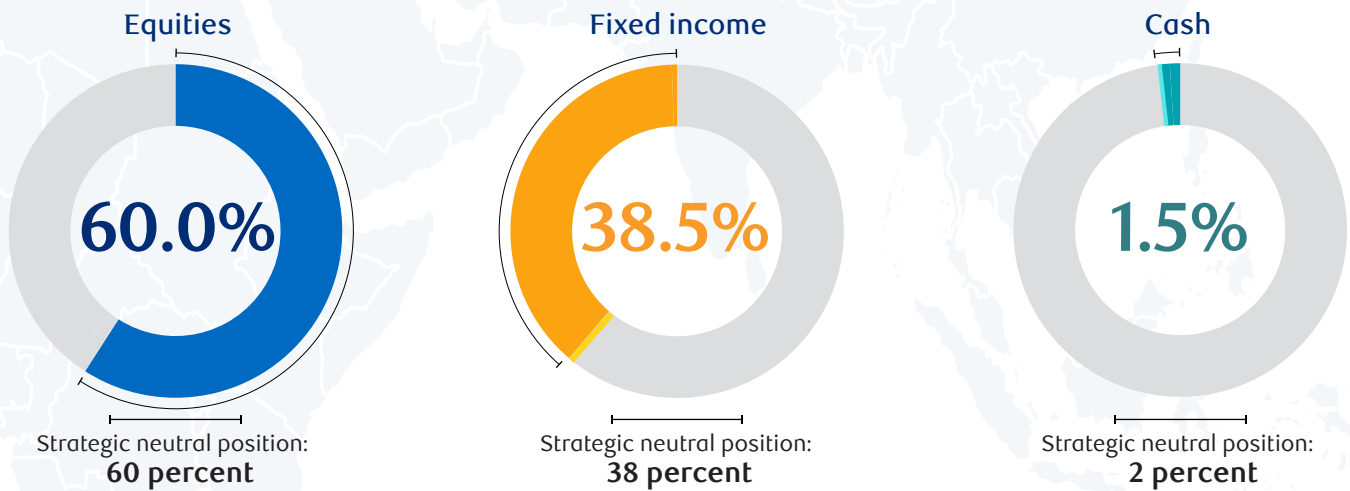
Asset mix – maintaining positioning near strategic neutral, with slight tilt to fixed income

After considering the risks and opportunities, we have left our recommended asset allocation for balanced investors very close to a neutral setting this quarter, with a slight tilt to bonds. Our base case scenario has the economy experiencing a soft landing, inflation falling gradually toward central bankers' 2% targets and central banks delivering modest monetary easing. Against this backdrop, prospective returns for fixed income appear pretty good, in the mid single digits with potential for further upside should the economy falter. Stocks still offer superior return potential versus bonds but the upside has been reduced as a result of the latest rally and the equity-risk premium is narrow. Recognizing the improved outlook for bonds and

demanding valuations in stocks, as well as the wide range of potential outcomes for the economy and markets, we feel it is appropriate to maintain an asset allocation close to our neutral setting, with a slight tilt in bonds. We would consider increasing our exposure to stocks should the equity-risk premium widen, or if we saw a broadening in the equity-market rally beyond mega-cap technology and themes other than artificial intelligence. For a balanced global investor, we currently recommend an asset mix of 60.0 percent equities (strategic neutral position: 60.0 percent) and 38.5 percent fixed income (strategic neutral position: 38.0 percent), with the balance in cash.

Recommended asset mix

RBC GAM Investment Strategy Committee



Note: As of May 31, 2024. Source: RBC GAM

Economic & capital markets forecasts

Economic forecast (RBC GAM Investment Strategy Committee)

	United States		Canada		Europe		United Kingdom		Japan		China		Emerging markets*	
	Summer 2024	Change from Spring 2024	Summer 2024	Change from Spring 2024	Summer 2024	Change from Spring 2024	Summer 2024	Change from Spring 2024	Summer 2024	Change from Spring 2024	Summer 2024	Change from Spring 2024	Summer 2024	Change from Spring 2024
Real GDP														
2023A	2.54%		1.07%		0.53%		0.10%		1.91%		5.52%		5.48%	
2024E	2.40%	N/C	1.30%	0.40	0.80%	0.50	0.90%	0.80	0.20%	(0.20)	5.20%	0.60	5.00%	0.40
2025E	1.80%	0.10	1.60%	(0.20)	1.70%	(0.10)	1.70%	(0.10)	1.50%	0.10	4.20%	0.10	4.30%	N/C
CPI														
2023A	4.12%		3.88%		5.42%		7.30%		3.25%		3.27%		2.59%	
2024E	3.40%	0.60	2.50%	N/C	2.50%	0.20	2.70%	N/C	2.20%	(0.20)	0.30%	N/C	2.30%	(0.10)
2025E	2.60%	0.30	2.40%	0.10	2.30%	0.10	2.50%	0.10	1.80%	0.30	1.70%	(0.10)	2.90%	(0.10)

A = Actual E = Estimate *GDP Weighted Average of China, India, Brazil, Mexico and Russia.

Targets (RBC GAM Investment Strategy Committee)

	May 2024	Forecast May 2025	Change from Spring 2024	1-year total return estimate* (%)
Currency markets against USD				
CAD (USD–CAD)	1.36	1.27	N/C	6.7
EUR (EUR–USD)	1.08	1.21	N/C	9.6
JPY (USD–JPY)	157.31	140.00	5.00	7.0
GBP (GBP–USD)	1.27	1.31	N/C	2.6
Fixed income markets				
U.S. Fed Funds Rate (upper bound)	5.50	4.75	0.50	
U.S. 10-Year Bond	4.50	4.50	0.50	4.5
Canada Overnight Rate**	5.00	4.00	N/C	
Canada 10-Year Bond	3.63	3.50	N/C	4.7
Eurozone Deposit Facility Rate**	4.00	2.50	0.25	
Germany 10-Year Bund	2.66	2.40	0.05	5.0
U.K. Base Rate	5.25	4.25	N/C	
U.K. 10-Year Gilt	4.32	4.10	0.10	6.1
Japan Overnight Call Rate	0.08	0.20	0.10	
Japan 10-Year Bond	1.07	1.25	0.25	(0.6)
Equity markets				
S&P 500	5278	5450	250	4.7
S&P/TSX Composite	22269	23175	1175	7.3
MSCI Europe	174	181	6	7.5
FTSE 100	8275	8600	675	7.8
Nikkei	38488	41550	100	9.7
MSCI Emerging Markets	1049	1160	75	13.5

** The Bank of Canada and European Central Bank each cut interest rates by 25-basis-points to 4.75% on June 5, 2024 and to 3.75% on June 6, 2024, respectively. Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD. Source: RBC GAM

Recommended asset mix

Asset mix – the allocation within portfolios to stocks, bonds and cash – should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor’s profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter-term fluctuations in markets.

Every individual has differing return expectations and tolerances for volatility, so there is no “one size fits all” strategic asset mix. Based on a 40-year study of historical returns¹ and the volatility² of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC GAM Investment Strategy Committee publishes a recommended asset mix based on our current

view of the economy and return expectations for the major asset classes. These weights are further divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark (strategic neutral) setting is 60% equities, 38% fixed income, and 2% cash.

A tactical range of +/- 15% around the benchmark position allows us to raise or lower exposure to specific asset classes with a goal of tilting portfolios toward those markets that offer comparatively attractive near-term prospects.

This tactical recommendation for the Balanced profile can serve as a guide for movement within the ranges allowed for all other profiles.

The value-added of tactical strategies is, of course, dependent on the degree to which the expected scenario unfolds.

Regular reviews of portfolio weights are essential to the ultimate success of an investment plan as they ensure current exposures are aligned with levels of long-term returns and risk tolerances best suited to individual investors.

Anchoring portfolios with a suitable strategic asset mix, and placing boundaries defining the allowed range for tactical positioning, imposes discipline that can limit damage caused by swings in emotion that inevitably accompany both bull and bear markets.

¹Average return: The average total return produced by the asset class over the period 1984 – 2024, based on monthly results.

²Volatility: The standard deviation of returns. Standard deviation is a statistical measure that indicates the range around the average return within which 2/3 of results will fall into, assuming a normal distribution around the long-term average.

Global asset mix							
	Benchmark policy	Allowable range	Summer 2023	Fall 2023	New Year 2024	Spring 2024	Summer 2024
Cash	2.0%	0.0% – 15.0%	2.0%	2.0%	1.5%	1.5%	1.5%
Bonds	38.0%	23.0% – 53.0%	38.0%	38.0%	38.5%	38.5%	38.5%
Stocks	60.0%	45.0% – 75.0%	60.0%	60.0%	60.0%	60.0%	60.0%

Note: Effective June 1, 2020, we reset our strategic neutral positions to reflect long-lasting changes in economy and capital markets' dynamics. Boosting strategic neutral equity exposure by 5% and reducing fixed income by same amount in our reference balanced portfolio.

Regional allocation							
	WGBI* May 2024	Allowable range	Summer 2023	Fall 2023	New Year 2024	Spring 2024	Summer 2024
Global bonds							
North America	44.5%	34.5% – 54.5%	42.7%	40.3%	47.7%	47.0%	44.5%
Europe	34.0%	24.0% – 44.0%	37.1%	39.8%	34.4%	34.6%	34.0%
Asia	21.4%	11.4% – 31.4%	20.3%	20.0%	18.0%	18.4%	21.4%
Global equities	MSCI** May 2024	Allowable range	Summer 2023	Fall 2023	New Year 2024	Spring 2024	Summer 2024
North America	71.0%	61.0% – 81.0%	67.7%	69.3%	69.8%	70.6%	70.6%
Europe	13.7%	3.7% – 23.7%	15.8%	14.5%	14.1%	13.8%	13.7%
Asia	7.1%	0.0% – 17.1%	8.4%	8.2%	8.1%	7.5%	7.5%
Emerging markets	8.3%	0.0% – 18.3%	8.1%	8.1%	8.1%	8.1%	8.3%

Our asset mix is reported as at the end of each quarter. The mix is fluid and may be adjusted within each quarter, although we do not always report on shifts as they occur. The weights in the table should be considered a snapshot of our asset mix at the date of release of the Global Investment Outlook.

Global equity sector allocation						
	MSCI** May 2024	RBC GAM ISC Spring 2024	RBC GAM ISC Summer 2024	Change from Spring 2024	Weight vs. benchmark	
Energy	4.54%	4.29%	4.54%	0.25	100.0%	
Materials	3.91%	2.23%	5.41%	3.18	138.4%	
Industrials	11.26%	12.94%	13.26%	0.32	117.8%	
Consumer discretionary	10.66%	10.75%	9.36%	(1.39)	87.8%	
Consumer staples	6.60%	5.17%	4.70%	(0.47)	71.2%	
Health care	11.83%	13.66%	10.23%	(3.43)	86.5%	
Financials	15.25%	14.97%	15.55%	0.59	102.0%	
Information technology	23.55%	25.92%	24.95%	(0.97)	105.9%	
Communication services	7.64%	7.61%	7.64%	0.02	100.0%	
Utilities	2.56%	1.15%	3.16%	2.01	123.4%	
Real estate	2.21%	1.31%	1.21%	(0.11)	54.7%	

*FTSE World Government Bond Index. **MSCI World Index. Source: RBC GAM Investment Strategy Committee

At RBC GAM, we have a team dedicated to setting and reviewing the strategic asset mix for all of our multi-asset solutions. With an emphasis on consistency of returns, risk management and capital preservation, we have developed a strategic asset allocation framework for five client risk profiles that correspond to broad investor objectives and risk preferences. These five profiles range from Very Conservative through Balanced to Aggressive Growth.

Very Conservative

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	1.5%	1.5%
Fixed Income	73%	68-88%	73.5%	73.5%
Total Cash & Fixed Income	75%	60-90%	75.0%	75.0%
Canadian Equities	10%	0-20%	10.0%	10.0%
U.S. Equities	8%	0-18%	7.8%	7.9%
International Equities	7%	0-17%	7.2%	7.1%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	25%	10-40%	25.0%	25.0%
			Return	Volatility
40-year average			7.6%	4.9%
Last 12 months			7.1%	7.0%

Very Conservative investors will seek income with maximum capital preservation and the potential for modest capital growth, and be comfortable with small fluctuations in the value of their investments. This portfolio will invest primarily in fixed-income securities, and a small amount of equities, to generate income while providing some protection against inflation. Investors who fit this profile generally plan to hold their investment for the medium to long term.

Conservative

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	1.5%	1.5%
Fixed Income	58%	43-83%	58.5%	58.5%
Total Cash & Fixed Income	60%	45-75%	60.0%	60.0%
Canadian Equities	13%	3-23%	13.0%	13.0%
U.S. Equities	15%	5-25%	14.8%	14.9%
International Equities	12%	2-22%	12.2%	12.1%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	40%	25-55%	40.0%	40.0%
			Return	Volatility
40-year average			8.0%	6.1%
Last 12 months			6.7%	7.7%

Conservative investors will pursue modest income and capital growth with reasonable capital preservation, and be comfortable with moderate fluctuations in the value of their investments. The portfolio will invest primarily in fixed-income securities, with some equities, to achieve more consistent performance and provide a reasonable amount of safety. The profile is suitable for investors who plan to hold their investment over the medium to long term.

Balanced

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	1.5%	1.5%
Fixed Income	38%	23-53%	38.5%	38.5%
Total Cash & Fixed Income	40%	25-55%	40.0%	40.0%
Canadian Equities	15%	5-25%	15.0%	15.0%
U.S. Equities	25%	15-35%	24.7%	24.8%
International Equities	15%	5-25%	15.4%	15.2%
Emerging Markets	5%	0-15%	4.9%	5.0%
Total Equities	60%	45-75%	60.0%	60.0%
			Return	Volatility
40-year average			8.4%	7.7%
Last 12 months			9.5%	9.1%

The **Balanced** portfolio is appropriate for investors seeking balance between long-term capital growth and capital preservation, with a secondary focus on modest income, and who are comfortable with moderate fluctuations in the value of their investments. More than half the portfolio will usually be invested in a diversified mix of Canadian, U.S. and global equities. This profile is suitable for investors who plan to hold their investment for the medium to long term.

Growth

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	1.5%	1.5%
Fixed Income	23%	8-38%	23.5%	23.5%
Total Cash & Fixed Income	25%	10-40%	25.0%	25.0%
Canadian Equities	18%	8-28%	18.0%	18.0%
U.S. Equities	30%	20-40%	29.6%	29.7%
International Equities	19%	9-29%	19.5%	19.3%
Emerging Markets	8%	0-18%	7.9%	8.0%
Total Equities	75%	60-90%	75.0%	75.0%
			Return	Volatility
40-year average			8.6%	9.5%
Last 12 months			11.6%	10.4%

Investors who fit the **Growth** profile will seek long-term growth over capital preservation and regular income, and be comfortable with considerable fluctuations in the value of their investments. This portfolio primarily holds a diversified mix of Canadian, U.S. and global equities and is suitable for investors who plan to invest for the long term.

Aggressive Growth

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	0%	0-15%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-17%	2.0%	2.0%
Canadian Equities	29%	19-39%	29.0%	29.0%
U.S. Equities	38%	28-48%	37.5%	37.6%
International Equities	20%	10-30%	20.7%	20.4%
Emerging Markets	11%	1-21%	10.8%	11.0%
Total Equities	98%	83-100%	98.0%	98.0%
			Return	Volatility
40-year average			8.9%	12.0%
Last 12 months			14.3%	12.3%

Aggressive Growth investors seek maximum long-term growth over capital preservation and regular income, and are comfortable with significant fluctuations in the value of their investments. The portfolio is almost entirely invested in stocks and emphasizes exposure to global equities. This investment profile is suitable only for investors with a high risk tolerance and who plan to hold their investments for the long term.

Capital markets performance



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The U.S. dollar appreciated against the Japanese yen but was little changed against other major currencies during the three months ended May 31, 2024. The greenback was up 4.9% against the yen and 0.4% against the Canadian dollar, but down 0.4% versus the euro and 0.9% versus the British pound. The postponement of expected interest-rate cuts by the U.S. Federal Reserve (Fed) because of economic strength and persistent inflation supported the greenback, outweighing concerns about its overvaluation, high government spending and political risks related to the presidential election.

The especially wide policy-rate differential between the U.S. and Japan is expected to remain in place for longer and pressure the yen as Japanese investors seek superior returns abroad. The slower pace of inflation in Canada and a stagnant economy have allowed the Bank of Canada to begin cutting interest rates. In Europe, the economy appears to have turned the corner while inflation has cooperatively come down closer to target. Sterling has held up owing to the expectation that interest-rate cuts will come later than in some other developed markets, offsetting concern about inflation that is among the highest in developed markets. Over the one-year period, the U.S. dollar was up 12.9% against the yen and 0.4% against the loonie, but down 1.5% against the euro and 2.4% against the pound.

Global fixed income posted declines in most regions in the latest quarter as yields rose with the deferral of expected rate cuts. At the start of 2024, investors had anticipated six rate cuts by the Fed over the year, but those expectations have since been tapered down to one or two because inflation has stalled above the Fed's 2% target and the labour market remains tight. The yield on the U.S. 10-year bond ended the period at 4.50%, up from 4.25% a quarter ago, but is still below the 4.93% level reached in October of last year. U.S. bonds outperformed, with the FTSE U.S. Government Bond Index essentially flat. Losses were largest for European and Japanese bonds. The FTSE European Government Bond Index dropped 8.7% and the FTSE Japanese Government Bond Index fell 8.6%. Over the 12-month period, the FTSE Canada Universe Bond Index performed best, up 2.2%, compared with declines of 18.1% for the FTSE Japanese Government Bond Index and 17.8% for the FTSE European Government Bond Index, measured in U.S.-dollar terms.

Most major stock markets registered solid gains in the latest quarter, with many equity indexes establishing new highs. The S&P 500 Index reached above 5300 in May for the first time, and record highs were also made in European, Canadian and Japanese equity markets. Stock-market gains have been reasonably broad-based this quarter as most indexes posted

gains in the low to high single digits. Performance ranged from a 0.7% loss for the MSCI Japan Index to a 10.3% gain for the MSCI UK Index in U.S.-dollar terms. The small loss on Japanese equities would have been a solid gain if not for the yen's depreciation against the dollar. Relatively attractive valuations for UK stocks on a price-to-earnings and cash-yield basis drew investors back to the market after it lagged other regions last year. Equities were exceptionally strong over the one-year period, ranging from a 12.4% return in U.S. dollars for the MSCI Emerging Markets Index to 28.2% for the S&P 500.

Stocks of U.S. companies of all sizes delivered respectable returns in the latest quarter, led by the 3.9% gain for the large-cap S&P 500, which outperformed the small-cap index by 1.5 percentage points. The Russell 3000 Value Index's 3.6% gain edged the Russell 3000 Growth Index's 3.1% advance as the investment boom in artificial intelligence (AI) broadened to include companies that fall into the value category. Utilities, a defensive area containing many value companies, was the best performing sector with a 14.7% return. Investors believe that growing demand for power required to run AI data centres will be a boon to the sector. On the other end of the spectrum, the Consumer Discretionary sector sank 3.7% amid concerns about weakening household balance sheets. Over the 12-month time frame, Communication Services was the best performing sector with a 35.4% return, and Consumer Staples ranked last with a 6.8% gain.



Exchange rates
Periods ending May 31, 2024

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.3630	0.43	2.86	0.40	4.13	0.17
USD–EUR	0.9216	(0.39)	1.74	(1.49)	4.07	0.58
USD–GBP	0.7848	(0.94)	0.03	(2.38)	3.69	(0.16)
USD–JPY	157.2650	4.90	11.54	12.88	12.83	7.73

Note: all changes above are expressed in US dollar terms

Canada fixed income markets
Periods ending May 31, 2024

	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Fixed income markets: Total return								
FTSE Canada Univ. Bond Index TR	(0.20)	(4.23)	2.16	(5.73)	(0.26)	0.22	2.57	(1.83)

U.S. fixed income markets
Periods ending May 31, 2024

	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Fixed income markets: Total return								
FTSE U.S. Government TR	0.04	(1.64)	1.36	(3.15)	(0.17)	0.41	1.72	0.83
BBg U.S. Agg. Bond Index TR ¹	0.04	(1.64)	1.31	(3.10)	(0.17)	0.42	1.66	0.89

Global fixed income markets
Periods ending May 31, 2024

	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Fixed income markets: Total return								
FTSE WGBI TR	(0.45)	(2.98)	1.26	(5.92)	(1.73)	(0.08)	1.62	(2.05)
FTSE European Government TR	(8.70)	(14.47)	(17.77)	(17.41)	(8.32)	(8.31)	(17.44)	(15.01)
FTSE Japanese Government TR	(8.62)	(14.52)	(18.07)	(15.22)	(9.87)	(8.23)	(17.74)	(12.79)

Canada equity markets
Periods ending May 31, 2024

	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Equity markets: Total return								
S&P/TSX Composite	4.63	4.59	17.08	3.09	9.96	5.07	17.55	7.36
S&P/TSX 60	3.75	3.82	16.76	3.29	10.09	4.19	17.23	7.56
S&P/TSX Small Cap	10.06	7.89	16.90	(1.95)	9.23	10.53	17.37	2.11

U.S. equity markets
Periods ending May 31, 2024

	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Equity markets: Total return								
S&P 500 TR	3.91	11.30	28.19	9.57	15.80	4.30	28.63	14.08
S&P 400 TR	3.60	7.87	25.97	4.67	12.26	3.98	26.41	8.96
S&P 600 TR	2.36	1.59	20.34	0.62	10.13	2.80	20.82	3.03
Russell 3000 Value TR	3.62	7.23	21.71	5.10	10.62	4.01	22.14	9.40
Russell 3000 Growth TR	3.12	12.66	32.82	10.24	18.66	3.51	33.29	14.75
NASDAQ Composite Index TR	4.19	11.82	30.37	7.61	18.54	4.58	30.82	12.04

Note: All rates of return presented for periods longer than 1 year are annualized. ¹ Bloomberg U.S. Agg. Bond Index TR. Source: RBC GAM

Global equity markets
Periods ending May 31, 2024

Equity markets: Total return	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	3.82	9.52	24.92	6.67	12.76	4.34	25.27	11.05
MSCI EAFE TR *	4.54	7.07	18.53	3.06	8.05	5.07	18.86	7.30
MSCI Europe TR *	6.70	8.24	19.71	4.19	9.03	7.24	20.05	8.47
MSCI Pacific TR *	0.64	4.80	16.08	1.00	6.26	1.14	16.41	5.15
MSCI UK TR *	10.26	8.82	18.91	6.69	7.13	10.82	19.25	11.07
MSCI France TR *	3.13	5.92	15.85	4.69	9.89	3.65	16.17	8.99
MSCI Germany TR *	4.23	7.47	18.05	(0.89)	6.42	4.75	18.38	3.18
MSCI Japan TR *	(0.67)	7.03	18.63	2.43	7.56	(0.17)	18.96	6.64
MSCI Emerging Markets TR *	3.52	3.41	12.39	(6.23)	3.55	4.04	12.71	(2.38)

Global equity sectors
Periods ending May 31, 2024

Sector: Total return	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	9.79	10.42	25.46	21.69	10.93	10.34	25.81	26.69
Materials TR *	6.93	3.77	21.54	2.13	11.53	7.47	21.88	6.32
Industrials TR *	3.57	9.35	28.53	6.13	11.75	4.09	28.90	10.49
Consumer discretionary TR *	(3.71)	1.97	18.14	0.14	11.29	(3.23)	18.48	4.25
Consumer staples TR *	3.95	4.98	6.78	2.61	6.45	4.47	7.08	6.82
Health care TR *	0.93	5.98	12.59	5.30	11.14	1.44	12.90	9.63
Financials TR *	5.95	11.51	33.58	5.99	10.83	6.48	33.96	10.34
Information technology TR *	4.18	15.03	34.79	14.41	23.60	4.70	35.17	19.11
Communication services TR*	7.52	17.20	35.37	2.58	11.46	8.06	35.75	6.79
Utilities TR *	14.73	9.81	12.92	3.92	6.36	15.30	13.24	8.19
Real estate TR *	(1.33)	(4.34)	8.18	(3.99)	0.68	(0.84)	8.49	(0.04)

* Net of taxes. Note: all rates of return presented for periods longer than 1 year are annualized. Source: Bloomberg/MSCI



Economic outlook

Falling inflation tees up rate cuts



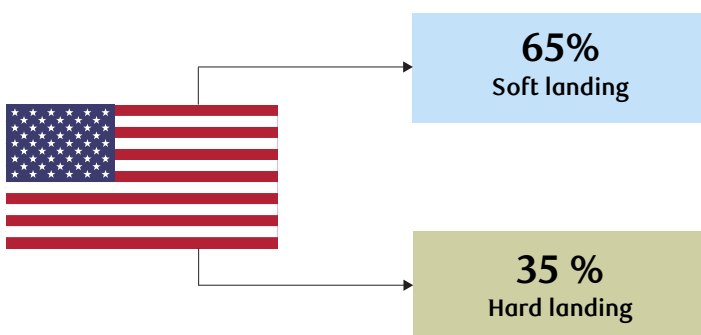
Eric Lascelles
 Managing Director & Chief Economist
 RBC Global Asset Management Inc.

The global economy has again demonstrated its impressive resilience by surviving another quarter of elevated interest rates. This reinforces our opinion that a recession can be avoided over the year ahead. We now assign a 65% likelihood that the economy manages a soft landing versus just a 35% risk of a hard landing – another term for a recession (Exhibit 1). The business cycle appears to be in the mid- to late-cycle phase, consistent with about two to five years of further economic growth.

After inflation staged an unwelcome revival in early 2024, it is heartening that the latest data (Exhibit 2) points to the resumption of the prior downward trend. Inflation is still too high, but it is becoming incrementally less so.

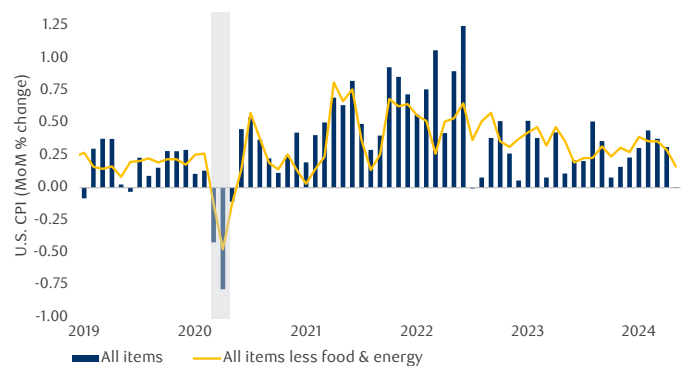
In turn, while interest-rate-cut expectations have been delayed relative to expectations at the beginning of the year, several central banks have already begun their monetary easing, and most of the rest are in a position to cut rates later in the year. The pace of rate cutting should be only gradual

Exhibit 1: Soft landing still most likely for the U.S., but not certain



Source: RBC GAM

Exhibit 2: U.S. CPI monthly trend is decelerating again



Note: As of May 2024. Shaded area represents recession. Source: BLS, Macrobond, RBC GAM

given the resilience demonstrated by the economy and inflation, but it nevertheless promises to significantly reduce the main headwind blowing against economic growth over time.

U.S. growth is enduring despite concerns around a handful of softening indicators (Exhibit 3). The consumer should be able to weather rate-related pressures. Granted, the U.S. economy is looking less exceptional in the context of its peers than it did in 2023. This is in part due to a modest deceleration in the U.S., and in part because much of the rest of the developed world has managed a slight acceleration.

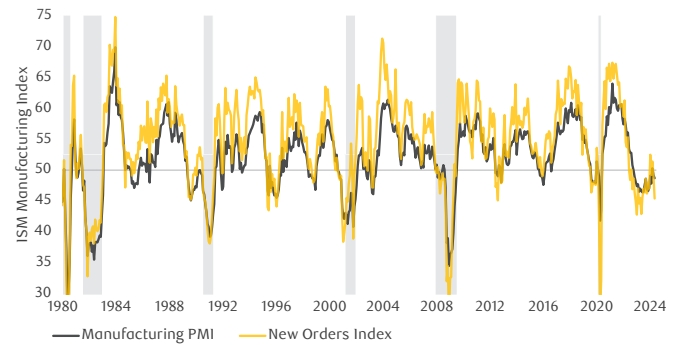
Downside risks cannot be ignored, highlighting why a hard landing remains a possibility. Interest-rate-related pain continues to mount in some corners of the economy and it may worsen still. Moreover, the risk remains that inflation will become stuck at elevated levels. Geopolitical risks are also higher than normal: the November U.S. election, Middle East conflict, China-U.S. tensions and the war in Ukraine together pose challenges for continued global stability and low inflation.

For markets, every major asset class has a measure of allure right now. Cash offers its highest yield in over a decade, though this is now beginning to ebb. Fixed income similarly operates with coupons near their highest in a decade, offers the potential for small capital gains as central banks cut rates and serves as portfolio protection should the economy stumble. Equities, meanwhile, normally provide moderate returns at this point in the business cycle. Valuations are somewhat stretched in the U.S., but reasonable elsewhere. The fact that the risk premium between stocks and bonds is smaller than normal makes the case for our slight bond overweight relative to equities.

Economy continues to advance

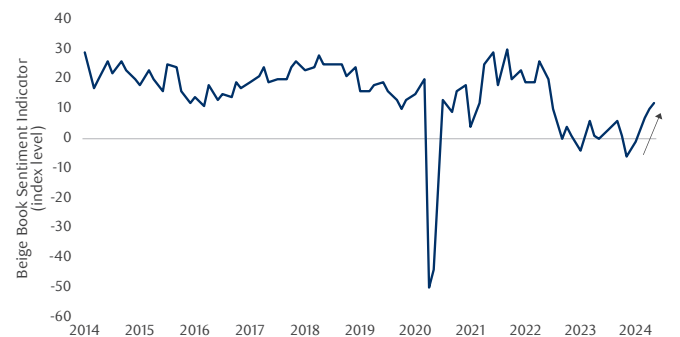
Economic activity continues to advance, a welcome development given lingering fears of a recession and the persistence of high interest rates. This progress is visible across a wide range of indicators, from first-quarter GDP figures that were reliably positive across the developed world; to descriptive surveys like the Fed's Beige Book, which confirms growth in the U.S. (Exhibit 4); to real-time alternative indicators such as the favourable signal emitted by an X (formerly Twitter) -based economic sentiment index (Exhibit 5).

Exhibit 3: U.S. manufacturing is wobbling



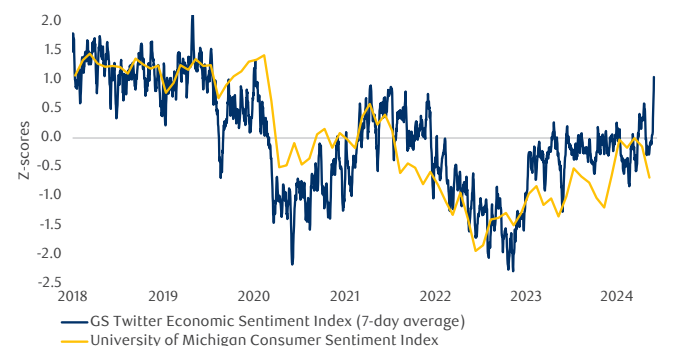
Note: As of May 2024. Shaded area represents recession. Source: ISM, Macrobond, RBC GAM

Exhibit 4: Beige Book Sentiment Indicator shows a revival



Note: As of May 2024. The indicator quantifies the sentiment of local contacts by assigning different weights to a spectrum of positive and negative words used to describe overall economic conditions in the Fed Beige Book. Source: U.S. Federal Reserve, RBC GAM

Exhibit 5: Twitter Economic Sentiment in the U.S. suggests more optimism ahead



Note: Twitter Economic Sentiment Index as of 05/29/2024, University of Michigan Consumer Sentiment as of May 2024. Source: Goldman Sachs Global Investment Research, University of Michigan, Macrobond, RBC GAM

Our economic modelling indicates that growth should be sustained over the year ahead. A number of the recession signals that had been blinking red last year have reversed, including now-easing lending standards (Exhibit 6), newly rising profit margins and reviving global trade (Exhibit 7). References to the word “recession” in S&P 500 Index company transcripts have continued to fall and are now at their lowest level in two years (Exhibit 8). These developments articulate the case for a soft landing over a hard landing.

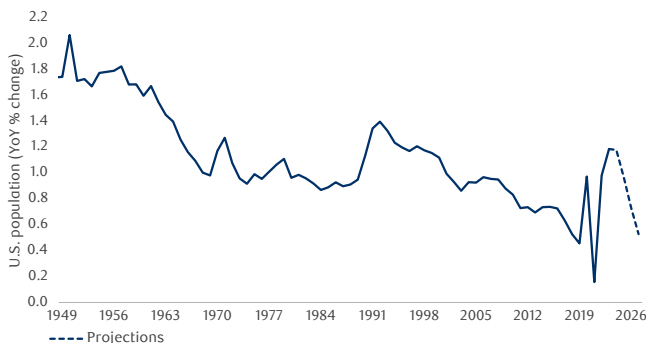
The U.S. economy was strong for much of 2023, enjoying the fruits of robust consumer spending, stronger-than-expected fiscal stimulus and population growth (Exhibit 9). Meanwhile, most of the rest of the developed world effectively stagnated during that period (Exhibit 10).

Exhibit 7: Global trade is reviving



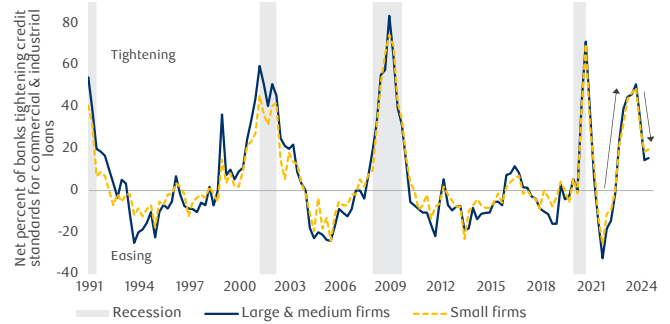
Note: As of Mar 2024. Shaded area represents U.S. recession. Source: CPB Netherlands Bureau for Economic Policy Analysis, Macrobond, RBC GAM

Exhibit 9: U.S. population boom driven by undocumented immigrants



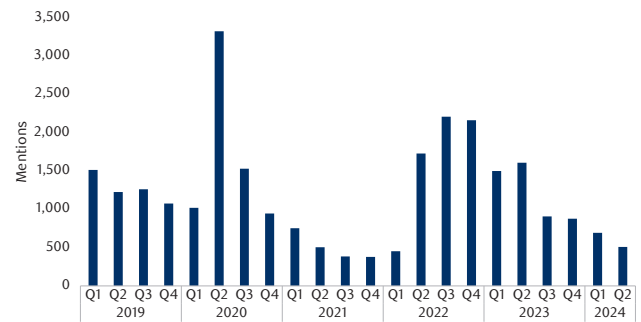
Note: Data for 2022-2027 estimated based on RBC GAM assumptions. Source: U.S. Census Bureau, Congressional Budget Office, Macrobond, RBC GAM

Exhibit 6: U.S. business-lending standards are reversing helpfully



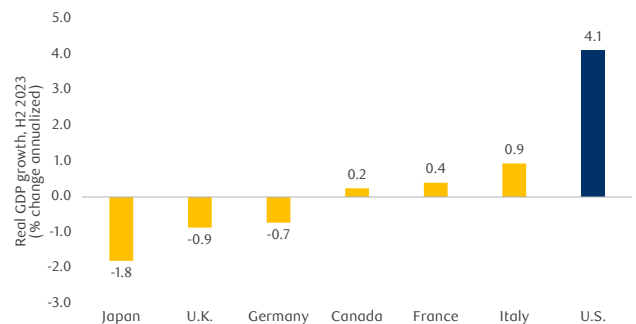
Note: April 2024 Senior Loan Officer Opinion Survey on Bank Lending Practices. Source: Federal Reserve Board, Macrobond, RBC GAM

Exhibit 8: Mentions of “recession” in S&P 500 company transcripts have fallen steadily



Note: As of Q2 2024 (partial data used for the quarter). Includes transcripts from all investor calls, investor days and capital markets days for S&P 500 companies. Source: Bloomberg, RBC GAM

Exhibit 10: U.S. growth exceptionalism



Source: Macrobond, RBC GAM

But that U.S. economic exceptionalism appears to be fading in 2024, in part as fiscal outlays stabilize. At the same time, other developed economies have accelerated from effective stagnation to a moderate clip. The eurozone, the UK and Canada all recorded improved GDP growth in the first quarter of 2024, alongside an assortment of other upgraded economic indicators. This convergence can perhaps best be conveyed by the fact that global economic surprises are no longer more negative than in the U.S. (Exhibit 11).

Updated growth forecasts

You wouldn't think that economic growth has materially converged between the U.S. and several other developed countries simply by looking at their respective 2024 GDP forecasts. The U.S. is still anticipated to significantly outpace the rest, with 2.4% growth versus 1.3% in Canada, and just 0.9% in the UK and 0.8% in the eurozone.

But those figures exaggerate the divide, as the U.S. managed such extraordinary growth in late 2023 (and the others experienced such pitiful stagnation) that the economic handoff into 2024 relatively flatters U.S. growth this year. In actuality, we anticipate quite a similar growth rate of just under 2% annualized per quarter across the entire set of countries.

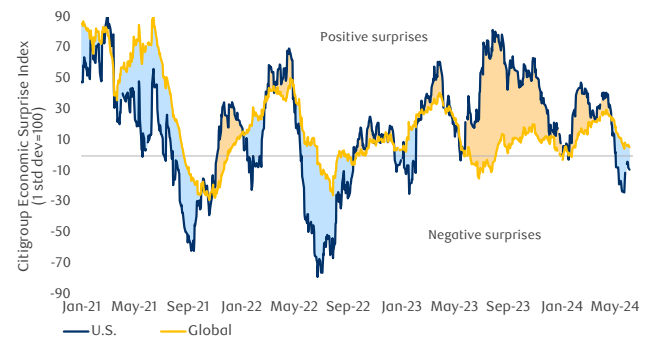
Providing further context, the 2024 U.S. growth outlook remains unchanged from a quarter ago while the rest of the developed world enjoyed an approximately half-percentage-point forecast upgrade.

Our growth forecasts are mostly a bit above the consensus outlook, informed by the view that a recession can be avoided, that inflation can likely descend somewhat further, and that interest-rate cuts can provide some assistance to the economy (Exhibit 12).

For 2025, the economic outlook remains largely the same as a quarter ago and is approximately on consensus. Modest growth stabilizes unemployment rates at healthy but not rock-bottom levels, allowing inflation to fall further. There is scope for growth to pick up somewhat over the latter part of the year as interest rates continue their descent.

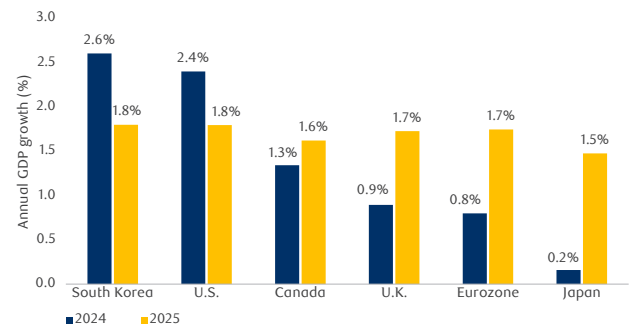
In emerging markets, the 2024 growth outlook has improved slightly and is ahead of the consensus by virtue of superior expectations for Chinese and Indian growth (Exhibit 13). Growth should then decelerate somewhat into 2025.

Exhibit 11: Global economic surprise gap reverses



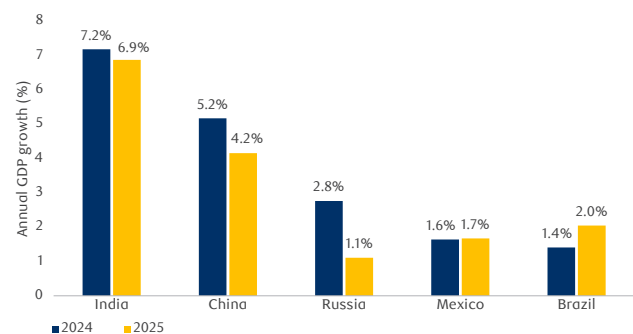
Note: As of 06/03/2024. Source: Citigroup, Bloomberg, RBC GAM

Exhibit 12: RBC GAM GDP forecast for developed markets



Note: As of 05/30/2024. Source: RBC GAM

Exhibit 13: RBC GAM GDP forecast for emerging markets



Note: As of 05/30/2024. Source: RBC GAM

Inflation begins to settle, again

After impressive progress between the middle of 2022 and the end of 2023, inflation proved somewhat stickier over the first several months of 2024 (Exhibit 14). This was especially true in the U.S., but also visible in other markets.

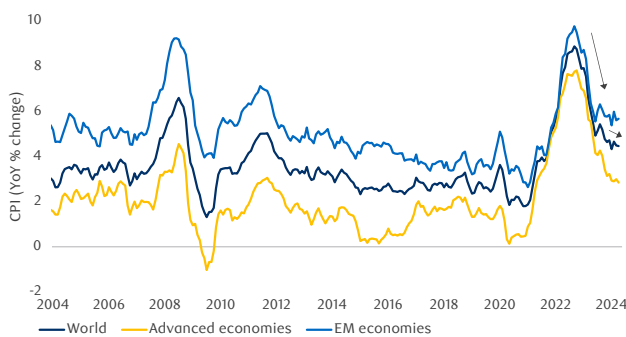
Inflation's flare resulted from higher gasoline prices, still-robust service-sector inflation and – in the U.S. – some seasonal distortions in the first quarter. It is undeniably a more difficult path downward for inflation if economies manage to avoid recession, as they have so far done.

The good news is that, since that unwelcome spurt, inflation has tentatively begun to decline again. The April and May

inflation numbers have improved, and real-time inflation data suggests that future months should also manage incremental improvements (Exhibit 15).

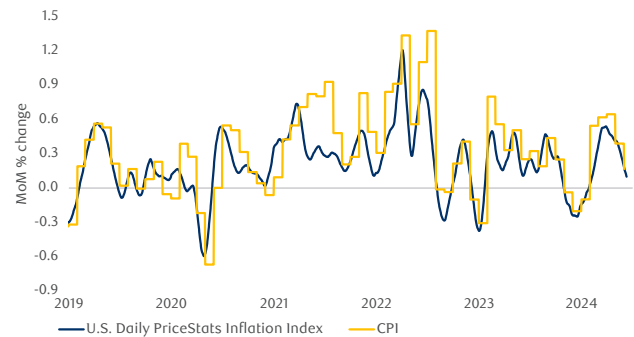
Although labour markets remain tight, wage growth is gradually decelerating from robust rates (Exhibit 16). The largest single driver of inflation – shelter costs – has room to continue slowing as lengthy lags play out. Non-shelter inflation can probably ease somewhat as insurance inflation peaks – a view motivated by the component's historically lagged relationship to broader price pressures, and by the reversal of some of the acute factors that recently drove insurance costs so high (Exhibit 17).

Exhibit 14: Global inflation has declined but remains sticky



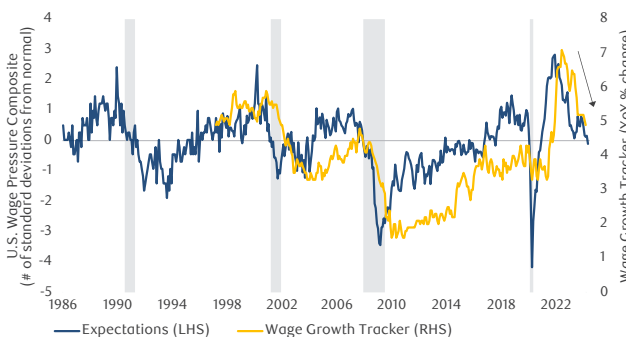
Note: As of Apr 2024. Source: Haver Analytics, Macrobond, RBC GAM

Exhibit 15: Real-time inflation continues to fall



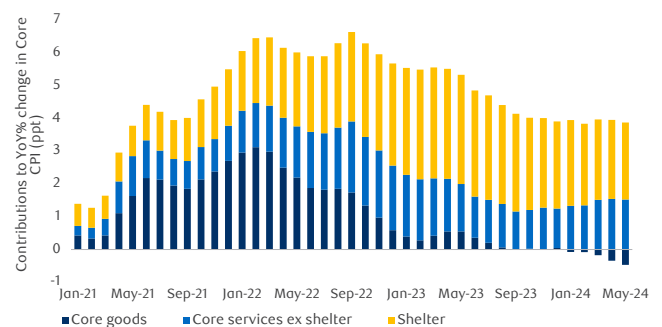
Note: PriceStats Inflation Index as of 05/31/2024, CPI as of May 2024. Source: State Street Global Markets Research, RBC GAM

Exhibit 16: Wage pressure in U.S. is easing



Note: Atlanta Fed Wage Growth Tracker as of Mar 2024, wage expectations as of May 2024. Wage Pressure Composite constructed using business intentions to raise wages. Shaded area represents recession. Source: Macrobond, RBC GAM

Exhibit 17: Shelter and core services are now the drivers of inflation in U.S.



Note: As of May 2024. Source: BLS, Haver Analytics, Macrobond, RBC GAM

There is evidence that more conservative consumers are starting to erode corporate pricing power, with the result that retail-level price cuts are becoming more common: This trend is another aid for inflation in the coming months, if less celebrated in C-suites.

Our 2024 inflation forecast has increased for the U.S. given recent upside inflation surprises, but it remains largely unchanged elsewhere. This is to say: Inflation should remain too high in 2024, but on a downward trend across the remainder of the year (Exhibit 18). We further assume that it takes a significant part of 2025 to bring inflation sustainably down to the realm of central banks' 2.0% targets.

Note that the lower inflation numbers recently achieved in the UK and eurozone versus North America largely reflect differences in how inflation is defined. The critical difference is that the U.S. and Canada include shelter costs in their inflation indexes, whereas the European nations do not.

Central banks start cutting

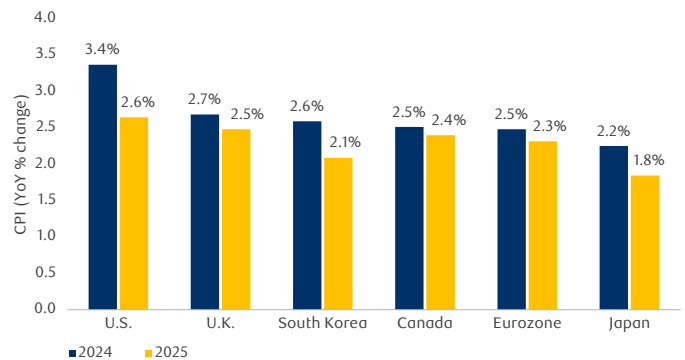
Policy rates are extremely high by the standards of the past decade and a half, and with good reason given the recent inflation shock. But now, with inflation declining, central banks are beginning to ease policy rates.

A number of emerging-market central banks have already begun the downward journey. This is an important development, as they were a helpful leading indicator on the way up. A mounting number of developed-world central banks including the European Central Bank, the Bank of Canada, the Swiss National Bank and Sweden's Riksbank have also begun their rate-cutting journey (Exhibit 19).

The Bank of England could begin easing as soon as August after the UK's national elections take place. The U.S. Federal Reserve (Fed) is dragging its heels given that inflation is higher there than elsewhere, but it is nevertheless plausibly on track for some exploratory rate cutting this fall, possibly as early as in September (Exhibit 20).

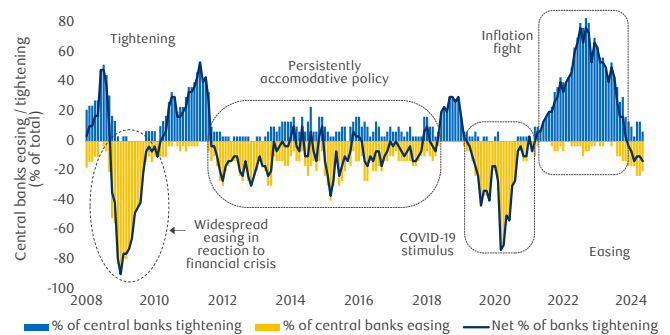
This broadly based pivot is momentous, as it is high interest rates that have constituted the primary threat to the global economy. Beginning the process of removing that threat is therefore quite helpful, despite a lag until the full benefit is felt.

Exhibit 18: RBC GAM CPI forecast for developed markets



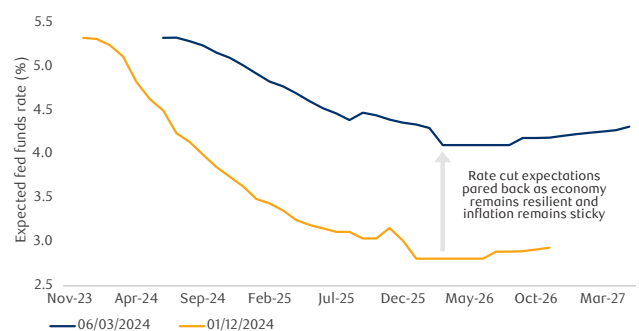
Note: As of 05/30/2024. Source: RBC GAM

Exhibit 19: Central banks are pivoting to rate cuts



Note: As of 05/31/2024. Based on policy rates for 30 countries. Source: Haver Analytics, RBC GAM

Exhibit 20: Market shaves off a number of rate cuts in 2024



Note: As of 06/03/2024. Source: Bloomberg, RBC GAM

Two caveats are in order.

First, it would be foolish to suggest that the trajectory for central banks can be mapped out far in advance. There have already been major revisions to expectations just this year, with far less easing anticipated today than at the beginning of 2024. Stubborn inflation and resilient growth have led to delays. There will certainly be more plot twists on the way to lower policy rates. But, as a general idea, central banks credibly want to make interest rates lower and believe they can begin to do so over the remainder of 2024.

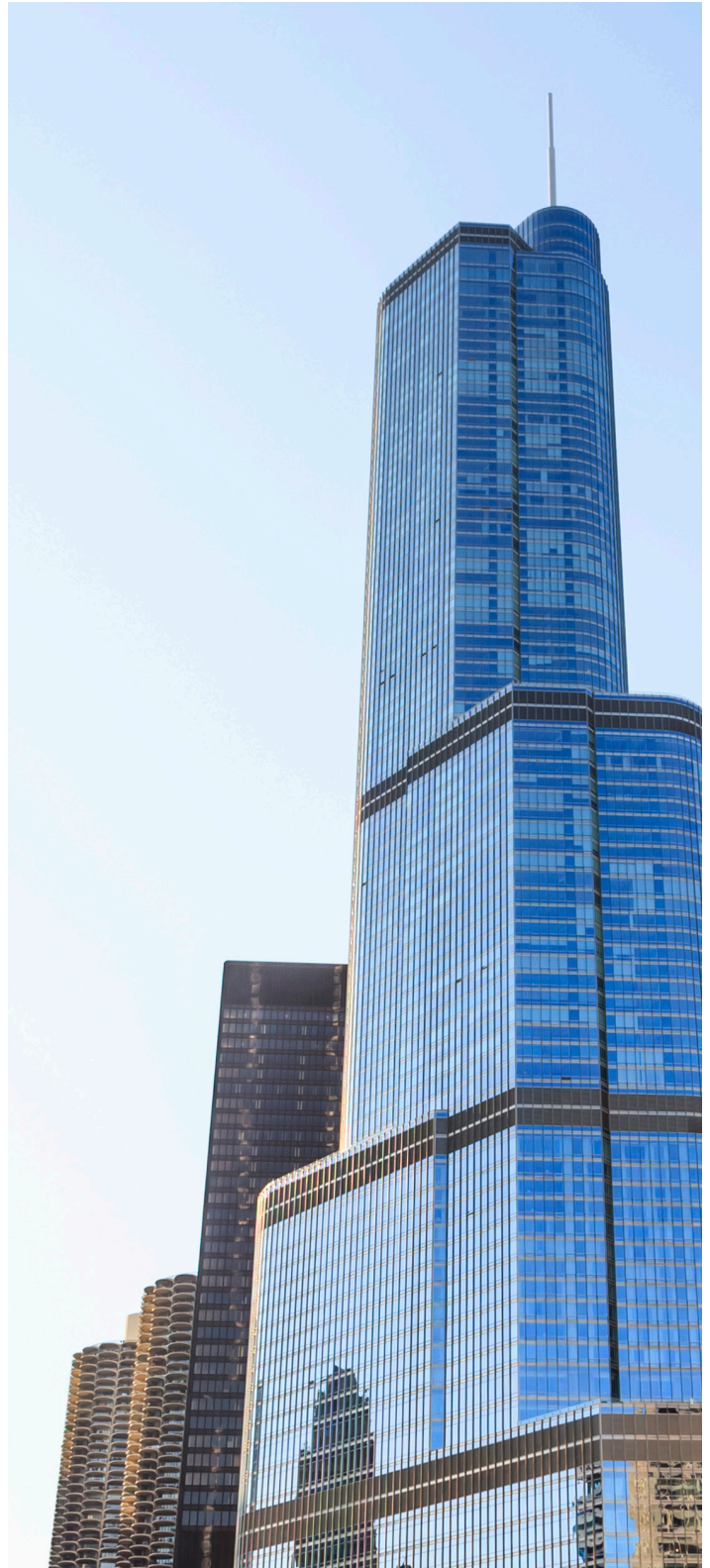
Second, contrary to the usual rate-cutting experience, this cycle should be gradual. There isn't the traditional catalyst of a recession forcing central banks into emergency rate cuts, and inflation remains too high at the moment. Central banks are therefore likely to ease in limited 25-basis-point increments, and not at every meeting. It is possible that extended pauses could be interspersed across the cycle.

Amid this uncertainty and imprecision, it is worth keeping in mind that a "neutral" policy rate is likely considerably lower than current levels. Unavoidably, the exact level is also uncertain. In our view, a neutral North American policy rate might be as low as 2.00% or as high as 3.50%. But, either way, there should be scope for multiple percentage points of rate cutting from here. That should deliver relief for borrowers and a capital gain for bondholders.

It should be noted that very little of what has been written so far applies to Japan, which is on a very different trajectory. Inflation in Japan rose with a considerable lag, and interest rates are therefore still in the process of reviving from an exceedingly low starting point. That journey continues, with the country's 10-year bond yield only recently rising above 1.00% for the first time in more than a decade.

High uncertainty persists

It remains a time of high macroeconomic uncertainty. Part of this relates to the possibility that inflation and/or growth could simply follow a path that differs from our base case scenario, even absent an exogenous shock. Much of the remaining risk relates to geopolitical uncertainty – i.e. the possibility of an exogenous shock causing the economy to deviate from its trend.



On the pure forecasting uncertainty side, there remains the risk – thankfully diminishing – of a recession. Interest rates remain restrictive (Exhibit 21), and these impact the economy with long and variable lags. There is evidence of pain mounting in some quarters, with household-loan delinquencies in the U.S. rising significantly (Exhibit 22). Fortunately, a more holistic assessment of American consumers indicates that they are mostly fine, with few job losses (Exhibit 23), rising wages and rising wealth via the advancing stock market.

The fact that U.S. small-business owners are less optimistic about their prospects is a possible sign of trouble brewing (Exhibit 24). But a counterpoint is that small businesses have long expressed more pessimism than larger businesses, and

from an investment standpoint it is large businesses that make up most of the stock market.

Certain recession signals continue to flash red, most prominently the fact that the U.S. yield curve remains inverted. But many other signals are no longer pointing to a recession, or now waffle on the subject. All told, we figure the risk of a U.S. recession over the coming year is down to about 35% – two to three times higher than normal, but nevertheless an unlikely outcome.

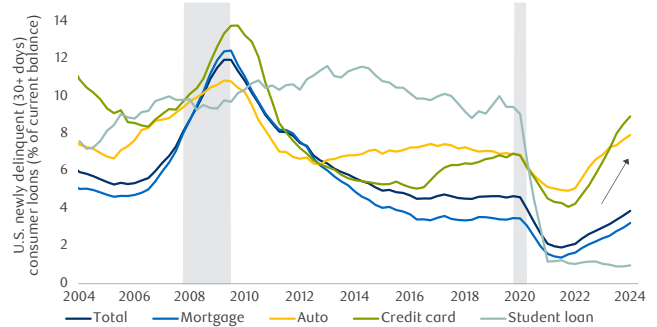
On the inflation front, there remains a risk that inflation gets stuck at an elevated level. We ultimately view this as unlikely given signs that inflation is declining again, and due to various favourable forces that were discussed earlier. But there isn't

Exhibit 21: Bond yields rise on rate-cut delay as inflation proves to be sticky



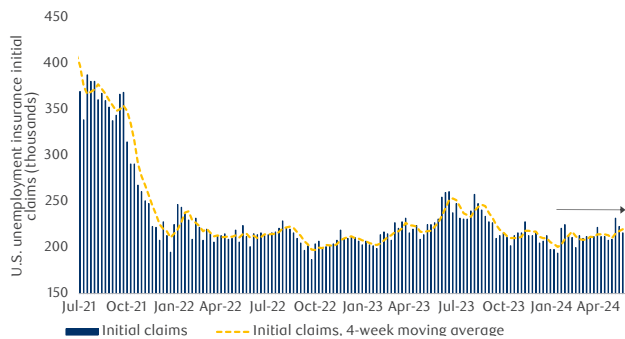
Note: As of 05/31/2024. Shaded area represents recession. Source: U.S. Treasury, Macrobond, RBC GAM

Exhibit 22: U.S. consumer-loan delinquency is now rising



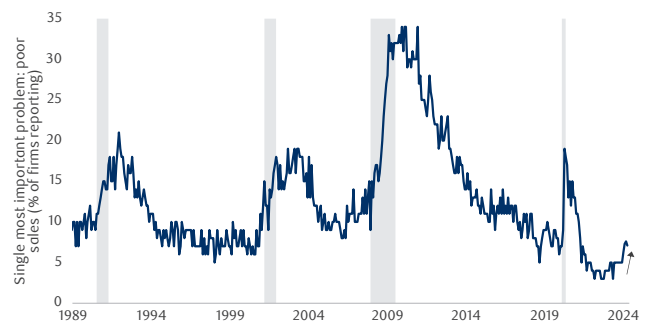
Note: As of Q1 2024. Shaded area represents recession. Source: FRBNY, Macrobond, RBC GAM

Exhibit 23: U.S. jobless claims remain low



Note: As of the week ending 05/25/2024. Source: DOL, Macrobond, RBC GAM

Exhibit 24: Poor sales have started to worry small businesses



Note: As of Apr 2024. Shaded area represents recession. Source: NFIB Small Business Economic Survey, Macrobond, RBC GAM

much precision to the analysis, and it must be conceded that the first-quarter inflation revival wasn't entirely anticipated, either. There are thus scenarios in which inflation remains too high and interest rates must also remain elevated, with the possibility that the economy suffers for it.

Turning to geopolitical risks, we see a familiar set of issues:

- The war in Ukraine is still unresolved and so grinds on. The fate of the global price of oil, natural gas and agricultural products lies partially in the balance.
- China-U.S. relations remain challenging, and probably will for years. The White House recently levied further tariffs on Chinese imports, with a particular focus on strategic green industries. We see no obvious end in sight to these economic frictions (and the possibility of a further deterioration depending on the outcome of the upcoming U.S. election), with the result that global growth may be incrementally dimmed and global inflation may be incrementally higher than otherwise.
- The Middle East remains conflict-ridden, with economic consequences that include a higher risk premium embedded within oil prices and trade-impeding missile strikes in the Red Sea, with the result that supply-chain problems have again mounted – with implications for inflation. A further escalation in tensions could increase these effects.

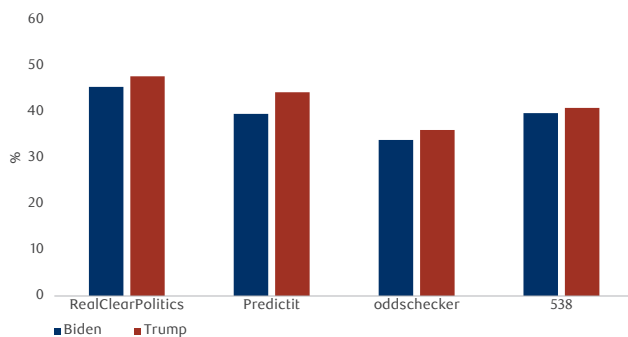
- Finally, the U.S. election contest between President Joe Biden and former President Donald Trump is fewer than five months away. The race remains a close one, according to polls and betting markets, with Trump leading slightly (Exhibit 25). We continue to think that a Trump win might be preferred by the stock market given a platform that includes corporate-tax cuts and deregulation. However, his proposal for major new tariffs and reduced immigration could have the opposite effect on the economy, with tariffs potentially increasing inflation as well.

Housing obscures Chinese recovery

The Chinese economy remains burdened by continued housing-market problems. After a period of overbuilding and excessive speculation, the property market is now very weak. Home sales are falling, home prices are in decline and many builders are technically insolvent.

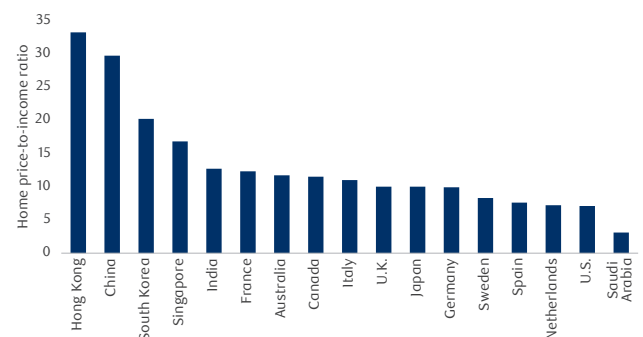
Chinese policymakers continue to grapple with the sector's woes. The latest initiative is a 500 billion renminbi (US\$69 billion) program for local governments to absorb a fraction of the country's completed but unsold housing inventory. Even with this, it is unlikely that the Chinese property market will be rocking any time soon given projections for declining demand over the coming decade and still-poor housing affordability (Exhibit 26). But stabilization is a feasible goal.

Exhibit 25: 2024 U.S. presidential election: Biden vs. Trump



Note: RealClearPolitics (RCP) (06/03/2024) poll averages for Biden vs. Trump matchups only. Others acknowledge possibility of other candidates contesting the election. Predictit (06/03/2024) probability of winning derived from prediction markets data. oddschecker (06/03/2024) probability of winning derived from median daily betting odds. 538 (06/03/2024) weighted averages of national presidential polls. Source: ABC News, FiveThirtyEight, oddschecker, Predictit, RCP, Macrobond, RBC GAM

Exhibit 26: China's home price-to-income ratio is among the highest in the world



Note: As of 2024. Source: Numbeo, Macrobond, RBC GAM

Even with the real estate drag, the Chinese economy is set to expand more than 5% this year, as consumer spending rises moderately and capital investment and exports are advancing fairly quickly (Exhibit 27). Stories of China’s economic demise are considerably exaggerated. The possibility of a trade war with the U.S. admittedly constitutes a downside risk to this view.

Looking further out, we continue to anticipate a general deceleration in Chinese GDP growth, to a trend of 3% to 4% per year. China’s demographics are quite poor, with plummeting fertility rates increasingly making the case for the United Nation’s low-fertility scenario in which China’s population falls from 1.4 billion today to fewer than 500 million people at the end of the century (Exhibit 28). However, the country’s productivity-growth rate, while slowing and set

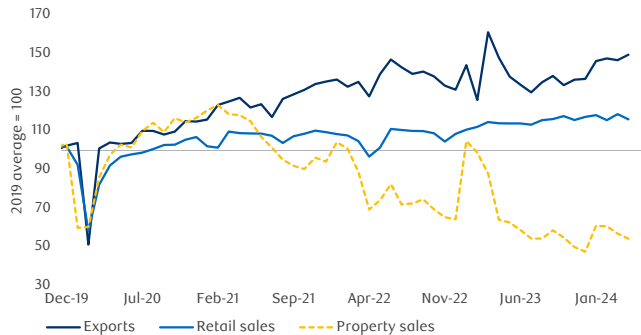
to continue slowing as the country becomes wealthier, is still moving deceptively quickly and can drive further prosperity gains (Exhibit 29).

Canadian distortions to fade

Consistent with most of its peers, the Canadian economy struggled in 2023. This was despite a theoretical tailwind from rapid population growth. Fortunately, and in line with those same peers, Canada now appears to be righting itself in 2024.

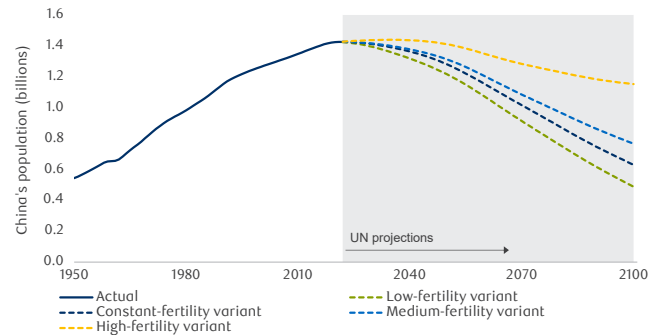
First-quarter economic growth was the best quarterly advance in a year, if not especially impressive in the context of still-strong population growth. Canada’s real-time business conditions index continues to trend higher, confirming that growth continues into the middle of the year (Exhibit 30).

Exhibit 27: China’s economic recovery is weighed down by housing



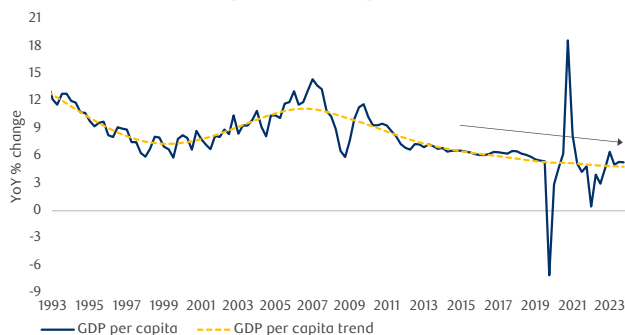
Note: As of Apr 2024. Average of 2019 levels indexed to 100. Source: Haver Analytics, RBC GAM

Exhibit 28: China’s population to shrink under different scenarios



Note: Data based on World Population Prospects 2022. Source: United Nations, Macrobond, RBC GAM

Exhibit 29: China’s productivity has been on a downward trajectory over the past decade



Note: As of Q1 2024. Trend estimated using Hodrick-Prescott filter. Source: China National Bureau of Statistics, Macrobond, RBC GAM

Exhibit 30: Business conditions in Canada look fine



Note: As of the week of 05/27/2024. Equal-weighted average of Business Conditions Index of Calgary, Edmonton, Montreal, Ottawa-Gatineau, Toronto, Vancouver and Winnipeg. Source: Statistics Canada, Macrobond, RBC GAM

The Canadian economy is especially sensitive to interest rates due to high household debt levels, poor housing affordability and the short-term orientation of mortgages themselves. Even so, the increase in household loan-delinquency rates has been surprisingly tame (Exhibit 31) and is actually below comparable U.S. levels. We posit that mortgage stress-testing regulations paired with deep client-bank relationships have combined to limit the pain in Canada. But household debt distress should nevertheless continue to mount for some time, with a large fraction of the country’s mortgages resetting at higher rates over the next few years. In turn, the pressure is on the Bank of Canada to continue easing rates, threading the needle between minimizing economic pain and achieving its inflation target.

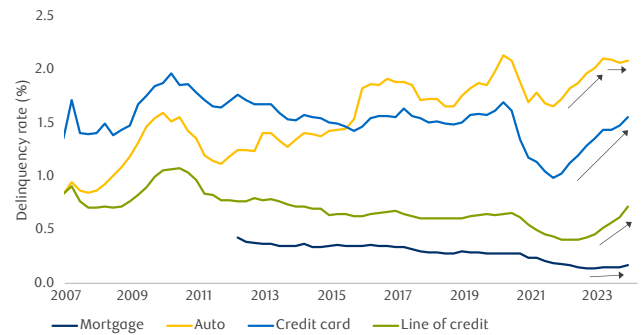
We forecast modest but acceptable economic growth for Canada over the next year, followed by a slight acceleration in the latter half of 2025 as the effect of lower interest rates starts to permeate the economy.

Canada’s population leapt again in the first quarter of 2024, signaling that the explosive gains of 2023 are not quite complete (Exhibit 32). Still, we expect population growth in 2024 to be somewhat less extreme than in 2023 as the government has targeted a materially reduced inflow of temporary residents. The influx in subsequent years should moderate further as the restrictions bite. This period of faster-than-normal population growth should help to support Canada’s rate of economic growth.

But the population does not increase in a vacuum. The incredibly rapid clip at which people have entered the country and the focus on low-skilled temporary labour have conspired to reduce Canada’s level of productivity (Exhibit 33). This concern should ease as the rate of population growth slows and the recent influx of new residents are integrated into the economy. But even setting this force aside, Canada’s longer-term productivity growth has been uninspiring, with more fundamental issues including insufficient capital expenditures and intellectual-property development.

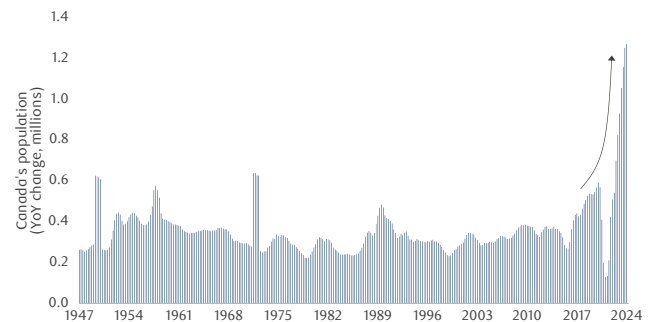
The Canadian housing market is buffeted by opposing forces. From a price perspective, booming population growth argues for higher prices, whereas poor affordability and the process of mortgage holders rolling into higher rates

Exhibit 31: Financial stress for Canadians is up, but only moderately



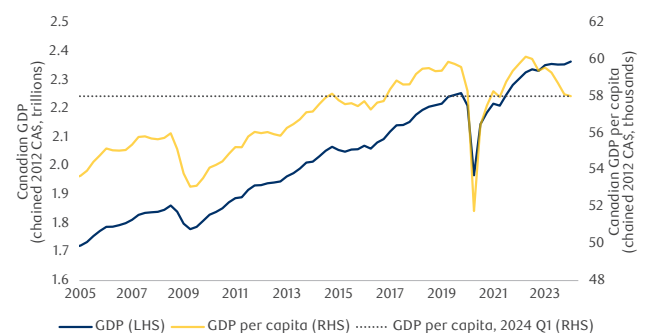
Note: As of Q4 2023. Share of the number of accounts 90 days or more past due over the previous three months. Source: Equifax, CMHC, RBC GAM

Exhibit 32: Canada’s record population growth fueled by immigration



Note: As of Q1 2024. Source: Statistics Canada, Macrobond, RBC GAM

Exhibit 33: Canadian GDP per capita has been shrinking



Note: As of Q1 2024. Source: Statistics Canada, Macrobond, RBC GAM

act as a depressant on home prices. We split the difference, anticipating a period of home-price stagnation over the next few years – similar to the experience of Canada’s last housing bust in the early 1990s.

The story is somewhat different from a construction standpoint. Canada has a housing shortage, and this is set to get worse. But builders are not in a position to respond given the elevated cost of financing new projects, a skilled-labour shortage and uncertainty over the ability of households to afford new properties. We believe it will take a few years for these challenges to fade, and for government supply-side restrictions to ease, at which point construction can properly ramp up.

Longer-term forces

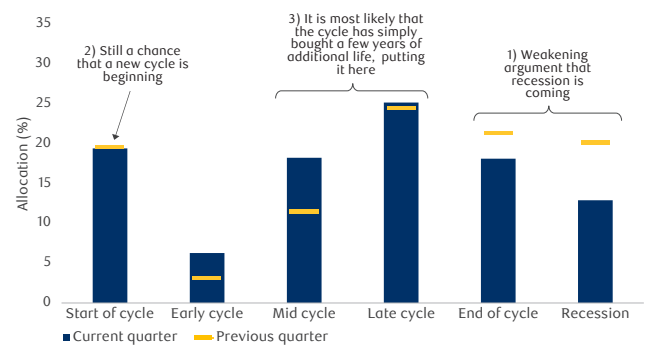
If economies do manage to continue growing over the coming years, it will mark the continuation of the existing cycle as opposed to the beginning of something new. Accordingly, our business-cycle scorecard argues that this is probably a mid-cycle or late-cycle moment (Exhibit 34). Traditionally, stock-market returns are moderate during this part of the cycle.

Don’t be too alarmed by inclusion of the word “late” in the cycle assessment. That doesn’t mean the cycle is destined to end in the near future. Instead, we think the expansion can run another two to five years.

Looking out over those next several years, we continue to bang the drum about fiscal excesses. Many countries continue to operate enormous fiscal deficits that will increasingly demand remedies as government debt resets at today’s higher interest rates (Exhibit 35). This backdrop suggests a period of more constrained economic growth as the necessary fiscal austerity plays out. While the U.S. is among the more egregious offenders, it is concerning that neither presidential candidate has much time for the issue. The U.S. is likely to be given more rope than most other countries given its status as the world’s reserve currency, but that could simply spell more pain later.

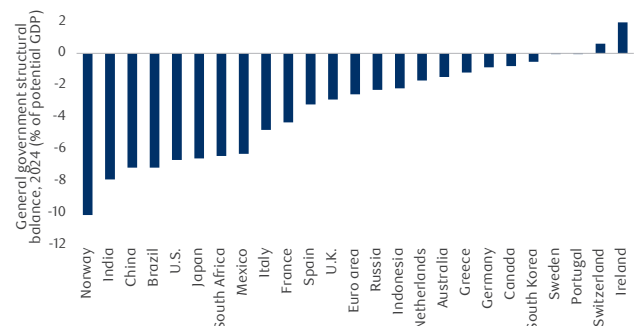
Gazing further into the future, there remain a number of long-term headwinds, including challenging global demographics, the effects of climate change (both the direct consequences and the economic drag associated with remedying it) and the impact of de-globalization (Exhibit 36).

Exhibit 34: U.S. business-cycle score



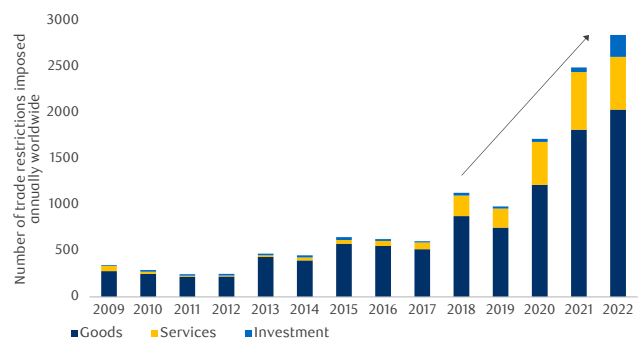
Note: As at 05/03/2024. Calculated via scorecard technique by RBC GAM. Source: RBC GAM

Exhibit 35: Significant structural fiscal deficits persist



Note: IMF projections for year 2024. Source: IMF WEO, April 2024, Macrobond, RBC GAM

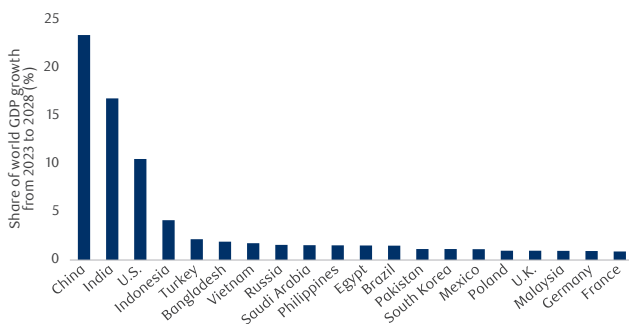
Exhibit 36: Global trade restrictions ballooned in recent years



Note: As of 2022. Source: Global Trade Alert, IMF, fDi Intelligence, RBC GAM

The question is whether these adverse forces can be offset by some potentially positive long-term trends. The first is the promise of superior emerging-market growth as a driver of global demand (Exhibit 37). Even as China slows, its economy has become so large that it can still generate around a quarter of global growth each year. India's economy has now achieved sufficient scale and moreover continues to grow rapidly, representing another major positive force. Indonesia is not as large, but it is also set to contribute importantly to global growth. All told, emerging-market economies are in a position to deliver more than four-fifths of economic growth over the coming five years. This should prove quite helpful, even if developed-world economies are advancing more slowly.

Exhibit 37: China to remain the top driver of world growth



Note: Based on IMF forecast from 2024 to 2028. Source: IMF World Economic Outlook, Apr 2024, Macrobond, RBC GAM

Finally, we remain optimists on the promise of new technologies (Exhibit 38). Generative artificial intelligence may indeed prove to be the next general-purpose technology that sends economy-wide productivity catapulting forward over a period of a decade or longer. Among a range of other potentially important developments, there is the chance that the new generation of weight-loss drugs prove not just successful in reducing obesity, but in reducing weight-associated ailments, unleashing a healthier and more productive populace. While we have already upgraded our long-term productivity-growth assumptions modestly, there is an upside scenario in which productivity growth surges well beyond our expectations in the years ahead.

Exhibit 38: Excitement about artificial intelligence swells



Note: As of the week ending 06/08/2024 (partial data used for the week). The weekly number of Google web searches for the topic relative to the total number of searches on Google over time is scaled and normalized to arrive at the search interest over time. Source: Google Trends, RBC GAM

Bottom line

In conclusion, the short-term economic outlook remains reasonably favourable, with a soft landing more likely than a hard landing. Inflation has shown inclinations to be sticky, but it is again descending gradually. In turn, central banks are well placed to undertake exploratory interest-rate cuts, reducing the degree of rate-related pain the economy is subjected to. This is not the perfect time to be an investor, but neither is it at a bad one with moderate returns likely available in the stock market and decent coupons offered by the bond market.



Market outlook

Optimism swells on brighter outlook



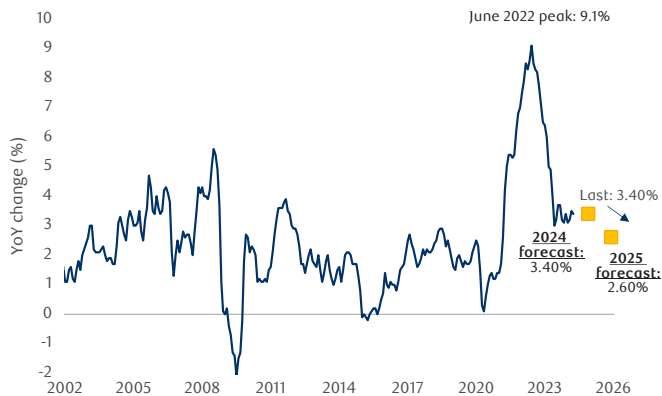
Eric Savoie, MBA, CFA, CMT
 Investment Strategist
 RBC Global Asset Management Inc.



Daniel E. Chornous, CFA
 Chief Investment Officer
 RBC Global Asset Management Inc.

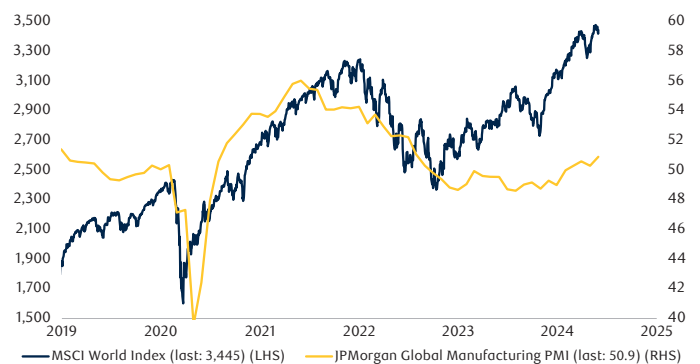
Inflation is moderating in a sign that the tighter monetary conditions in place since 2022 have addressed one of the biggest threats to the current expansion (Exhibit 1). As consumer-price pressures subside, the need for highly restrictive monetary policy is becoming less evident and the conditions for highly anticipated rate cuts are being established. Some of the world’s major central banks have already begun cutting interest rates given a higher sensitivity to borrowing costs in certain regions outside the U.S., recognizing that changes in monetary policy affect activity on a lagged basis. So far, though, economies have held up reasonably well, and leading indicators of global growth have been trending higher since late 2022 (Exhibit 2). These developments are consistent with increasing odds of a soft landing which, along with the assumption that central banks are leaning toward a less restrictive policy stance, has boosted investor optimism and propelled stock prices to new highs.

Exhibit 1: U.S. Consumer Price Inflation
 CPI Index Y/Y % change



Note: CPI data as of April 30, 2024. RBC GAM forecasts as of May 31, 2024. Source: Bloomberg, RBC GAM

Exhibit 2: Global equities and economic leading indicators



Note: MSCI World Index in U.S. dollars. As of May 31, 2024. Source: Bloomberg, RBC GAM

Against this backdrop, we believe sovereign bonds offer attractive value with yields near their highest levels in almost two decades. The risk of substantially higher yields is minimal as long as inflation continues to fall as we expect, which means bond investors will likely be able to keep their coupon and potentially benefit from capital gains should yields decline from current levels. As a result, we expect fixed income markets to deliver mid to high single-digit gains over the year ahead and, importantly, for bonds to act as a ballast against volatility in equities if the economy were to falter.

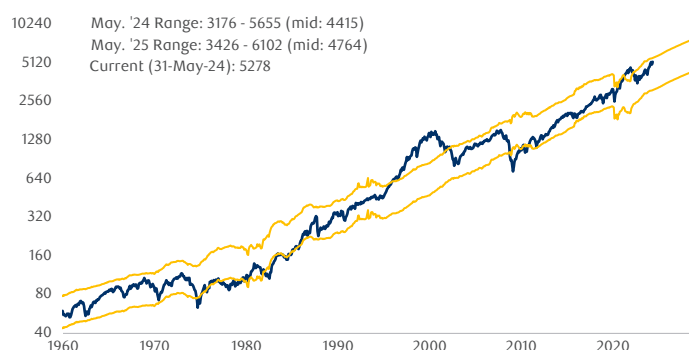
Stocks have continued their upward march to record levels, but equity-market leadership has been increasingly concentrated in a small group of U.S. mega-cap technology stocks. The Magnificent 7 have benefited from trends in artificial intelligence (AI), and investors are increasingly optimistic about the future, which is reflected in analysts' earnings upgrades. However, with the S&P 500 Index trading around one standard deviation above fair value (Exhibit 3), a sustained bull market will require companies to achieve lofty earnings projections and to sustain investor confidence.

We have left our recommended asset allocation for balanced investors very close to a neutral setting this quarter, with a slight tilt to bonds. The key risk to our benign outlook for the economy is that inflation could be more stubborn than anticipated, which would likely limit the degree of easing central banks can deliver. Should interest rates remain higher for longer, borrowing costs would weigh further on economic activity. Other headwinds and sources of uncertainty include the U.S. election in November, persistent tensions in the Middle East, war in Ukraine and China's growth challenges. Our asset mix stance reflects elevated macroeconomic uncertainty, a favourable outlook for bonds and a somewhat cautious view on stocks given demanding valuations in U.S. large-cap equities especially. For a balanced global investor, our current recommended asset mix is 60.0% equities (strategic: "neutral": 60.0%), 38.5% bonds (strategic "neutral": 38.0%) and 1.5% cash.

Evidence that higher rates are starting to bite

Following the powerful recovery from the global pandemic, fueled by immense stimulus, there are signs that the

Exhibit 3: S&P 500 equilibrium Normalized earnings & valuations



Note: As of May 31, 2024. Source: RBC GAM

Exhibit 4: Luxury stocks S&P Global Luxury Index relative to S&P 500 Index



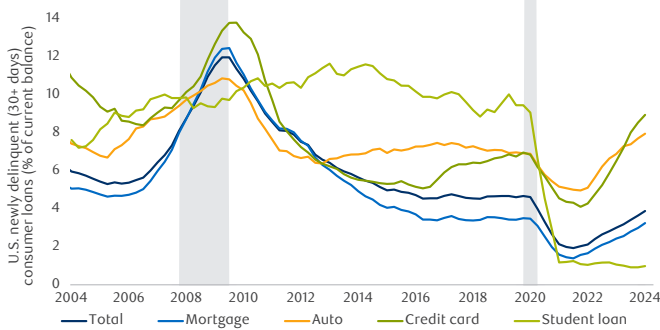
Note: As of May 31, 2024. Source: Standard & Poor's, Bloomberg, RBC GAM

economy is slowing amid higher interest rates. For example, luxury-goods stocks have been severely underperforming the S&P 500 since early 2023, an indication, perhaps, that consumers of high-end goods are dialing back their spending (Exhibit 4). Delinquency rates for auto loans, mortgages and credit cards have all been rising gradually since early 2022, and while not necessarily at alarming levels, the trend

suggests debt-related challenges are intensifying (Exhibit 5). Small businesses are also struggling in this environment as evidenced by owner optimism near the lowest levels in the past two decades, and profits for this slice of corporate America are falling (Exhibit 6). Taken together, these signs

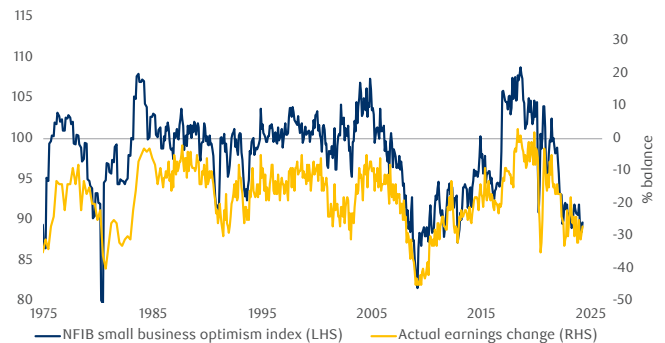
suggest the tightening of monetary policy since early 2022 is having real consequences. But to the extent recession is avoided, the decelerating trend in so many indicators may extend the cycle as inflation is progressively reduced.

Exhibit 5: U.S. consumer-loan delinquency rate



Note: As of Q1 2024. Shaded area represents recession. Source: FRBNY, Macrobond, RBC GAM

Exhibit 6: U.S. small-business survey Optimism index



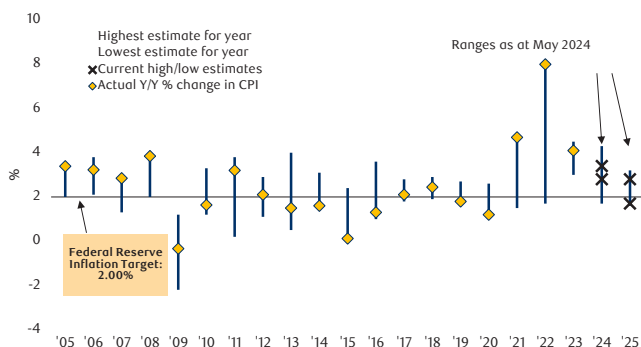
Note: As of April 30, 2024. Source: NFIB, BCA Research, Bloomberg, RBC GAM

Inflation expectations gravitate toward 2% target

After the extreme and largely unexpected inflation spike in 2022, economists and investors are increasingly confident that inflation is following a path toward the 2% level targeted by major central banks. Exhibit 7 plots the range of economists' inflation forecasts year by year for the past two decades, and the diamond represents where inflation ended up in any given year. The record for 2022 stands apart from all the rest, as estimates began the year around 2%, but inflation

ended up at over 8% triggering the massive tightening of global monetary policy since then. Following that epic miss, forecasting accuracy improved in 2023 as inflation gradually subsided. For 2024 and 2025, economists look for much more manageable inflation levels around 2%-3%. This view is consistent with inflation-linked bond prices, which signal that inflation will ultimately fall back to around 2% in Canada, the U.S. and Europe (Exhibit 8).

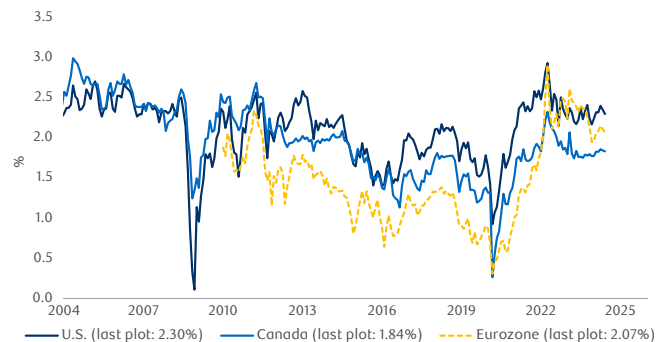
Exhibit 7: United States Inflation estimate dispersion



Source: Consensus Economics, RBC GAM

Exhibit 8: Implied long-term inflation premium

Breakeven inflation rate: nominal vs 10-year real return bond



Note: As of May 2024. Eurozone represents GDP-weighted breakeven inflation of Germany, France and Italy. Source: Bloomberg, RBC CM, RBC GAM

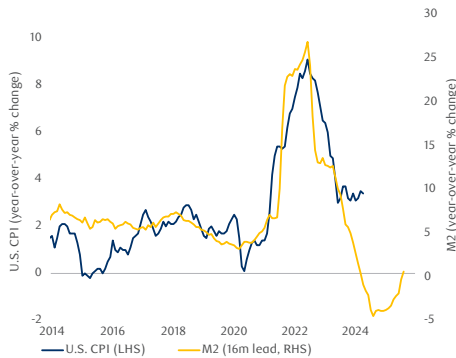
A variety of other indicators support the idea that inflation is headed in the right direction. Increases in the money supply, used-car prices and residential rents helped explain the surge in inflation during the pandemic (exhibits 9 to 11). But these indicators and many others have cooled significantly. As a result, we have growing confidence in our view that inflation pressures are likely to continue subsiding over our forecast horizon.

Macro environment justifies less restrictive central-bank policy

Higher interest rates have been successful in taming price pressures and, although inflation hasn't quite fallen to the

U.S. Federal Reserve's (Fed) 2% target, the labour market is showing signs of cooling as well. Until recently, the Fed was able to focus its monetary efforts exclusively on inflation as the labour market was in solid shape. In the past several quarters, though, the unemployment rate has started rising and wage growth has slowed (exhibits 12 and 13). The jobs market still appears to be healthy, but signs of overheating have faded, reducing the need for highly restrictive monetary policy and opening the door to potential easing over the months and quarters ahead.

Exhibit 9: U.S. inflation and money supply – Year-over-year changes in CPI and M2



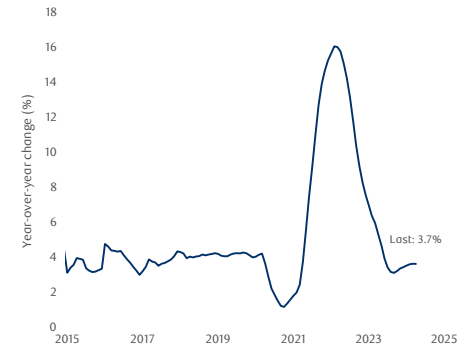
Note: As of Apr 30, 2024. Source: Bloomberg, RBC GAM

Exhibit 10: Manheim Used Vehicle Value YoY Index



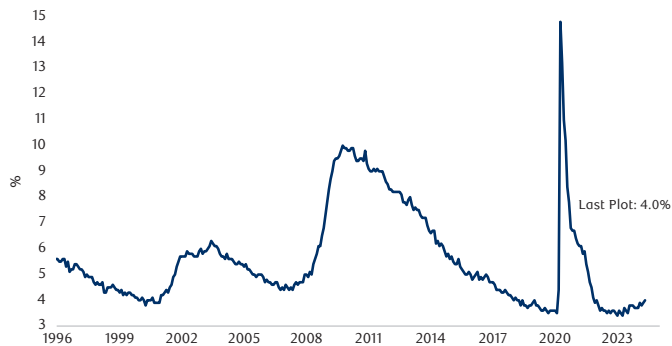
Note: As of May 2024. Shaded area represents recession. Source: Manheim Consulting, Bloomberg, RBC GAM

Exhibit 11: U.S. Zillow Rent Index
All homes year-over-year % change



Note: As of Apr 30, 2024. Source: Zillow Inc., Bloomberg, RBC GAM

Exhibit 12: U.S. unemployment rate



Note: As of May 2024. Source: Bloomberg, RBC GAM

Exhibit 13: U.S. average hourly earnings



Note: As of May 2024. Source: Bureau of Labor Statistics, Haver Analytics, RBC GAM

Our models suggest that U.S. short-term interest rates are highly restrictive and that rate cuts are now appropriate (Exhibit 14). But the Fed has been waiting patiently for greater evidence that the 2% inflation target will be reached and can be sustained. While the macroeconomic backdrop has softened, we haven't quite seen conditions warranting aggressive policy-rate cuts.

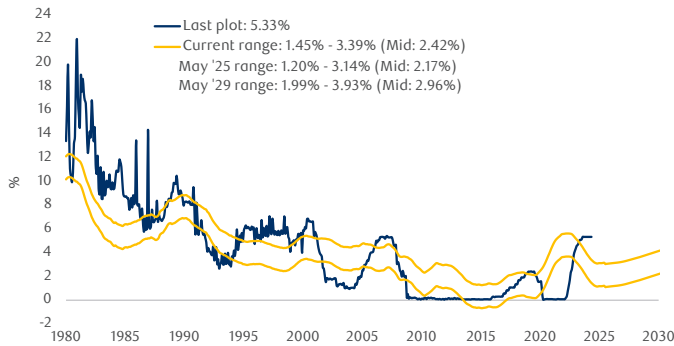
Investors that were looking for substantial rate cuts have so far been disappointed, as expectations for reductions kept getting pushed back as the year has progressed. The number of U.S. rate cuts for 2024 as suggested by pricing in the futures market has been dialed back to no more than two from six at the start of the 2024 (Exhibit 15). But some

other central banks have already started to cut rates. Both the Bank of Canada and European Central Bank reduced their policy rates by 25 basis points in the first week of June. Futures pricing suggests that the widening gap between U.S. rates and those in other major markets will be short-lived as the Fed is expected to kick off rate cuts later in the year (Exhibit 16).

Rate-cut road maps

A shift from tighter to looser monetary conditions has important implications for capital markets, and a look at past cycles of rate cuts can help provide guidance as to what is likely to take place over the coming easing of rates. Exhibits 17 to 19 plot road maps for the fed funds rate, the

Exhibit 14: U.S. fed funds rate
Equilibrium range



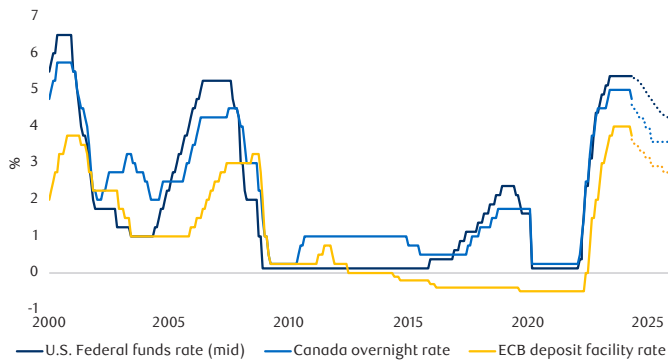
Note: As of May 31, 2024. Source: Federal Reserve, RBC GAM

Exhibit 15: Fed funds implied expectations rate based on futures – Based on 12-month futures contracts

Date	25bps cuts priced in for 2024	U.S. 10-yr yield
31-Jul-2023	4.5 cuts	3.96%
31-Aug-2023	4.4 cuts	4.11%
30-Sep-2023	2.8 cuts	4.57%
31-Oct-2023	2.6 cuts	4.93%
30-Nov-2023	4.5 cuts	4.33%
31-Dec-2023	"Powell pivot" Dec. 13, 2023 6.3 cuts	3.88%
31-Jan-2024	5.8 cuts	3.91%
29-Feb-2024	3.4 cuts	4.25%
31-Mar-2024	2.7 cuts	4.20%
30-Apr-2024	1.1 cuts	4.68%
31-May-2024	1.4 cuts	4.50%

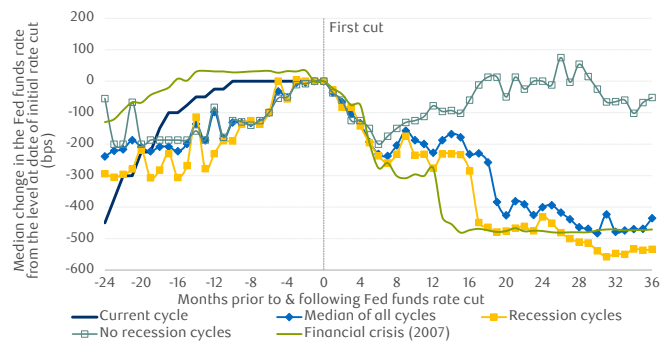
Note: As of May 31, 2024. Source: Bloomberg, RBC GAM

Exhibit 16: Central bank policy interest rates



Note: Forecasts, shown as dotted lines, are based on futures for the U.S. and OIS forwards for other regions. As of Jun 7, 2024. Source: Bloomberg, RBC GAM

Exhibit 17: Path of the fed funds rate
Implications for current cycle, following first rate cut



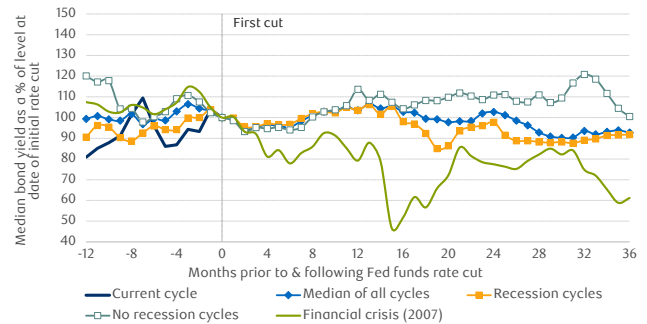
Note: As of May 31, 2024. Source: RBC GAM

U.S. 10-year bond yield and the S&P 500, where t=0 on each chart represents the date of the first rate cut in a period of monetary easing. The charts capture 16 cycles of rate cuts back to the 1950s. We've also plotted lines for the median of all cycles as well as the median for recessions, no-recession outcomes and economic soft landings. Instances where the economy enjoyed a soft landing typically featured relatively few rate cuts, a short-lived decline in bond yields and a continuation of rising stock prices after a bit of volatility around the initial shift in policy stance. In outcomes where the economy fell into recession, though, central banks typically cut interest rates more aggressively, declines in bond yields were sustained, and stocks struggled for a median of eight to 12 months before resuming an upward trajectory. Every cycle is unique and the range of outcomes is wide. But we find that tracking the progress of the current cycle on these charts can help identify the kind of economic outcome investors are pricing in. In our view, the performance of capital markets through the current cycle conforms most closely to a scenario where recession is avoided.

Sovereign-bond models suggest decent return potential, minimal valuation risk

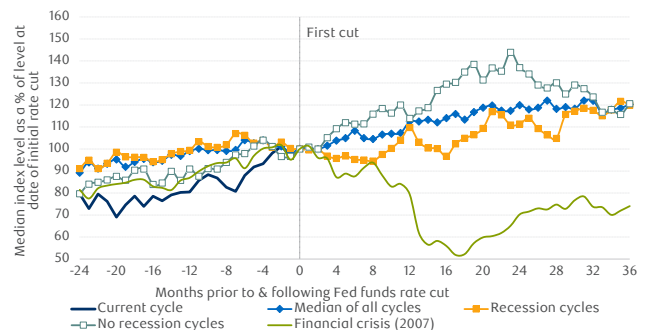
Global bond yields rose across most major regions in the past quarter, as investors switched to fearing that interest rates may not decline much in an environment where economies continued to grow and inflation remained on a gradual downward trajectory. Yields rose anywhere from 10 to 40 basis points depending on the region, with Japanese government bonds underperforming given that the

Exhibit 18: U.S. 10-year bond yield and the fed funds rate cut – Implications for current cycle, following first rate cut



Note: As of May 31, 2024. Source: RBC GAM

Exhibit 19: S&P 500 and the fed funds rate cut – Implications for current cycle, following last rate hike



Note: As of May 31, 2024. Source: RBC GAM

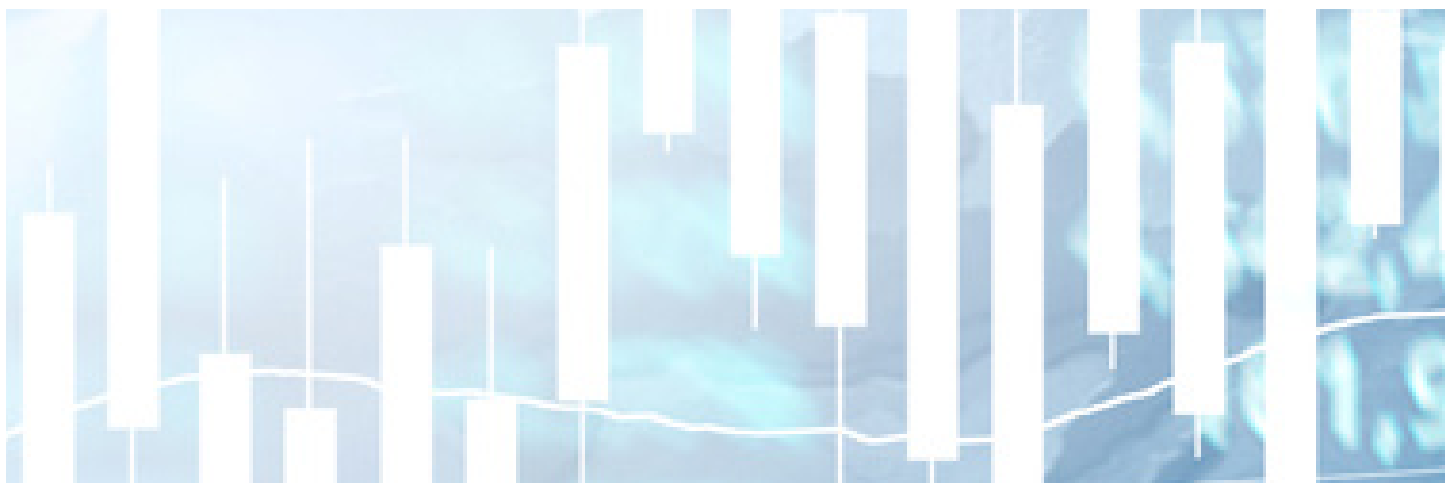
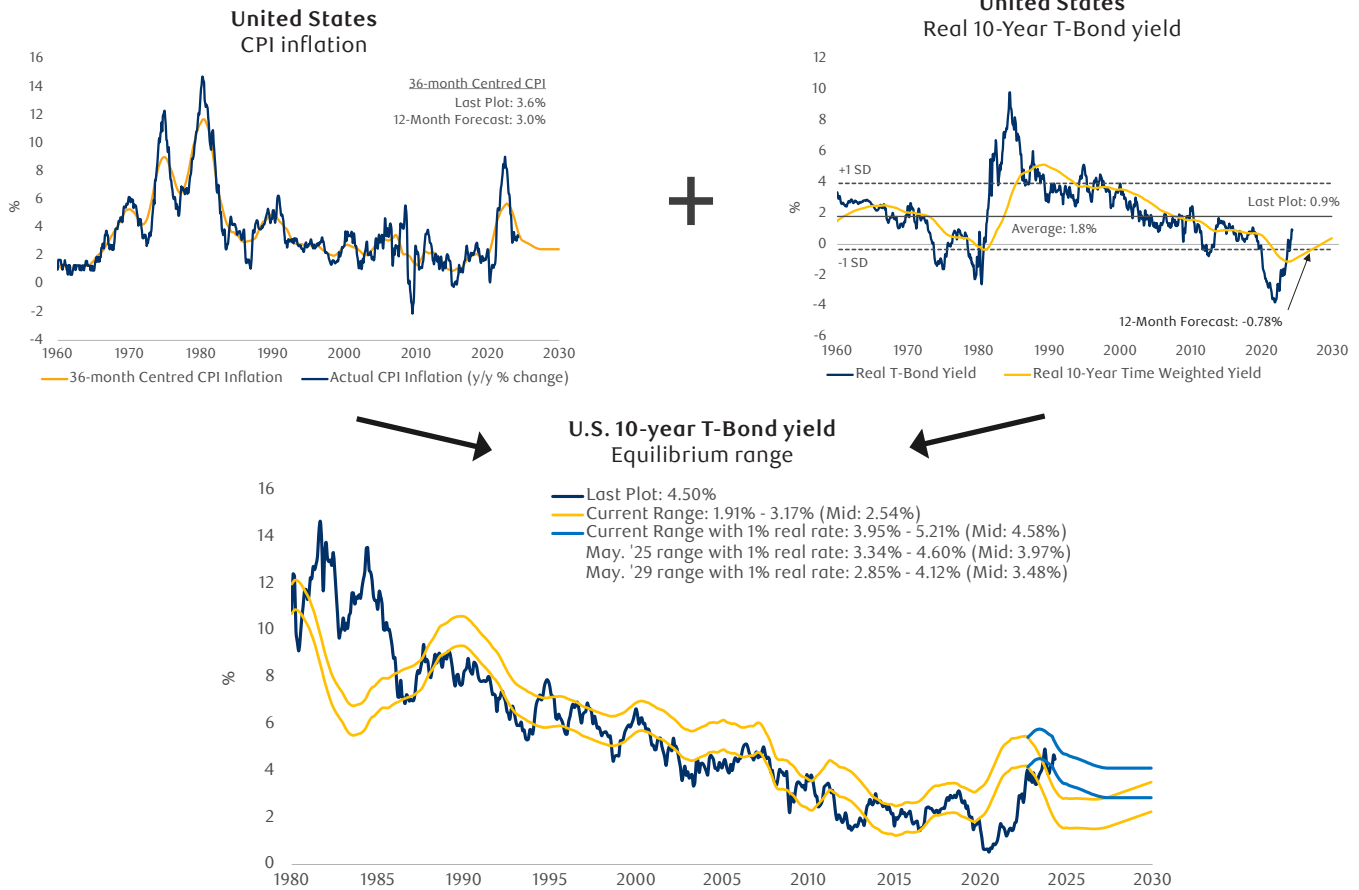


Exhibit 20: U.S. 10-year bond yield

Fair-value estimate composition



Note: As of May 31, 2024. Source: RBC GAM

Bank of Japan, unlike its peers, has just begun tightening. In our view, sovereign bonds look appealing at current levels in all major regions except Japan, where yields are still below our band estimating equilibrium or appropriate levels, representing heightened valuation risk (Page 42).

Current sovereign-bond yields are well above the levels deemed appropriate by our equilibrium models and the reason for the gap is largely to do with how we forecast real interest rates. Exhibit 20 plots the components of our U.S. 10-year bond model, which is made up of an inflation premium and a real interest rate. These two factors combine to generate the orange equilibrium band on bottom chart in Exhibit 20 of nominal bond yields. This band has undergone extreme fluctuations since the COVID-19 pandemic due in large part to the surge and subsequent calming in inflation

back toward more normal levels. To establish a reasonable level for real interest rates going forward, we use a time-weighted moving average of real interest rates through the past decade. As a result, the deeply negative real interest rates experienced during the pandemic will take many years to roll out of the modelled estimate. Currently, the model combines an inflation premium of about 3% with a modelled real rate of around negative 0.5% to suggest an appropriate level for the nominal U.S. 10-year bond yield closer to 2.5% versus the actual yield of 4.5% at the time of this writing.

However, if we consider that the extremely negative real rates experienced during pandemic were due to truly extraordinary circumstances that are unlikely to be repeated, the model may be understating the appropriate level for real interest rates going forward. The combination of tighter monetary

conditions and rising fiscal deficits suggests that real interest rates may settle at a higher level on a sustained basis. Rather than assuming a near-zero or slightly negative real rate of interest, adjusting the real rate immediately to 1% in the model to account for these factors produces the blue band on the U.S. 10-year bond chart. Interestingly the current 10-year yield sits right in the centre of this new band. Under this new assumption, we could conclude that the U.S. 10-year yield is more or less appropriately priced and that, importantly, the downward slope in the band is more gradual than the one in the original model.

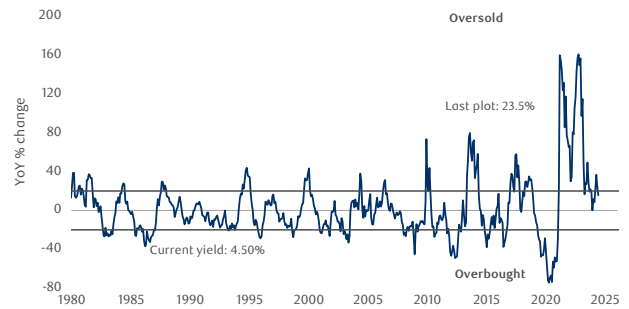
We continue to evaluate these potential tweaks to our model as conditions evolve and, while market assessments can change, we struggle to find a scenario that makes the bond market look particularly expensive. As a result, our view is that the fixed income markets offer decent return potential in the mid single digits and with only modest valuation risk over the year ahead, especially in an environment where central banks are actively cutting rates.

“Investor sentiment toward bonds remains near extreme pessimism, and our long-term price momentum indicator suggests a downward bias to yields going forward.”

Technical bond indicators

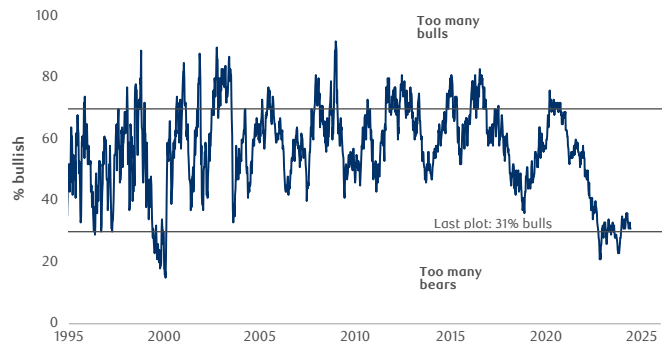
In addition to an attractive fundamental backdrop, there are a variety of technical indicators that currently support sovereign bonds. The year-over-year change in the U.S. 10-year yield has provided reliable buy and sell signals in the past when crossing below +20% from an oversold condition, or crossing above (-20%) from an overbought condition (Exhibit 21). This indicator triggered a buy signal in late 2023 and moved back to an oversold condition this spring, nearing another buy trigger if it again drops below the 20% threshold. Moreover, investor sentiment toward bonds remains near extreme pessimism, and our long-term price momentum indicator suggests a downward bias to yields going forward (exhibits 22 and 23). These indicators suggest a compelling environment for adding duration exposure.

Exhibit 21: U.S. 10-year T-bond yields
Rate of change



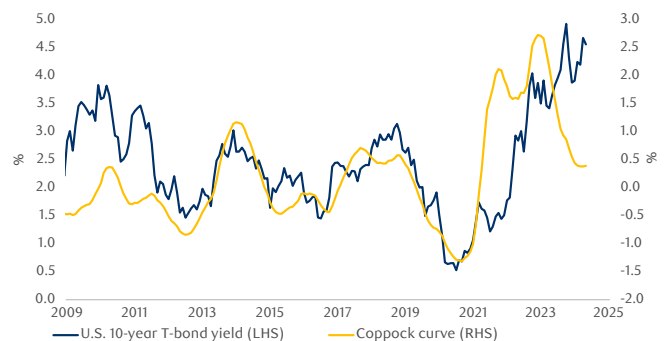
Note: As of May 31, 2024. Source: Bloomberg, RBC GAM

Exhibit 22: U.S. 10-year T-bond bullish consensus



Note: As of Jun 2, 2024. Source: Market Vane, RBC GAM

Exhibit 23: U.S. 10-year T-bond yield
Long-term price (yield) momentum



Note: Coppock curve based on monthly data. As of May 31, 2024. Source: Bloomberg, RBC GAM

Hardly any sign of stress in capital markets

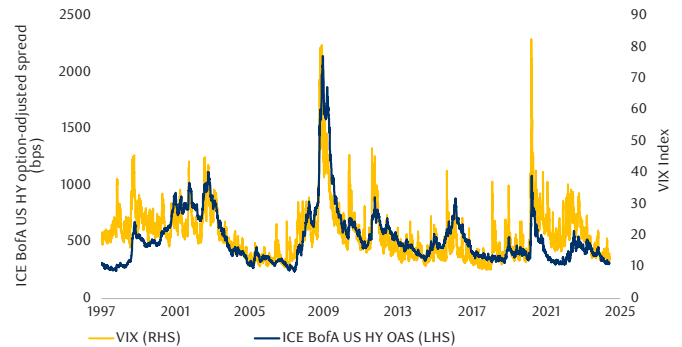
Riskier assets have been relatively stable, and some priced for perfection, consistent with a benign macroeconomic backdrop. Both the VIX (volatility index), commonly referred to as the fear index, and the yield gap between government bonds and high-yield corporate debt are near historic lows (Exhibit 24), reflecting a relative lack of concern among investors that they will suffer major losses. Moreover, a Bank of America financial-stress index capturing a variety of market-based measures of liquidity indicates stress in capital markets is lower than normal (exhibit 25). Taking these signals together, one can conclude that the outlook for the economy and corporate profits is sound. But another interpretation is that investors could be complacent and too willing to accept the risks associated with seeking higher returns.

Stocks climb to record levels, led by U.S. mega-cap technology

The increasing odds of a soft landing and progress in the fight against inflation helped push equity markets to new highs in the past quarter, although the biggest gains have been highly concentrated. A small group of mega-cap technology stocks (i.e. the Magnificent 7) that have benefited from trends in AI was up 24.6% from the beginning of the year to the end of May, helping lift the market-cap-weighted S&P 500 by 10.6% over the same period (Exhibit 26). But the equal-weighted version of the S&P 500, which represents the performance of the average stock, is up slightly less than half that at 4.8%. Other areas underperformed the S&P 500, especially emerging markets, Canadian equities and U.S. small-cap stocks, all of which have delivered low single-digit returns so far this year in U.S. dollar terms.

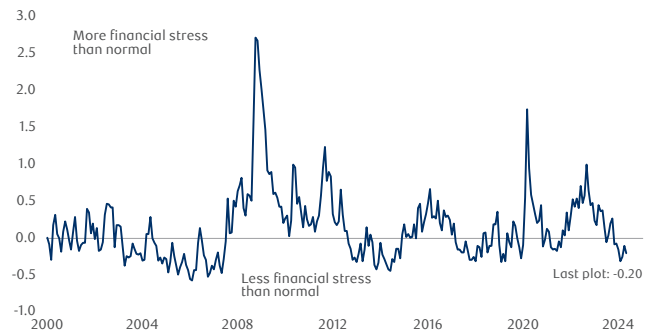
Equity markets outside the U.S. large-cap space have not enjoyed the same massive gains, and in many cases remain reasonably valued. Our global stock-market composite is situated within just one percentage point of fair value, and global stocks register at 14% below fair value excluding U.S. equities and their high-PE technology cohort (Exhibit 27). While the S&P 500 is close to one standard deviation above our modelled estimate of fair value, other major indices in Europe, Canada, the UK and emerging markets are close to or more than one standard deviation below their own fair values (page 43). As a result, global equity markets could offer attractive returns should economic and corporate-profit growth remain positive.

Exhibit 24: ICE BofA US HY spread and VIX Index



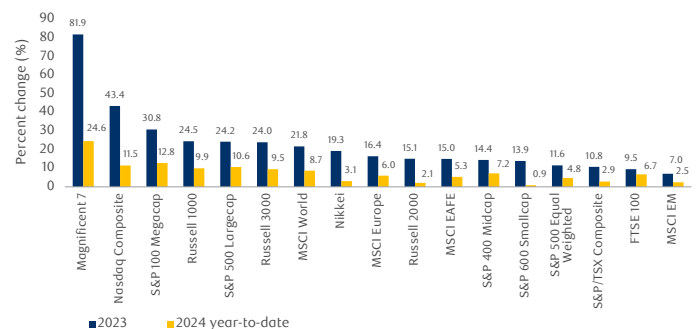
Note: As of May 31, 2024. Source: Bloomberg, RBC GAM

Exhibit 25: BAML Global Financial Stress Index



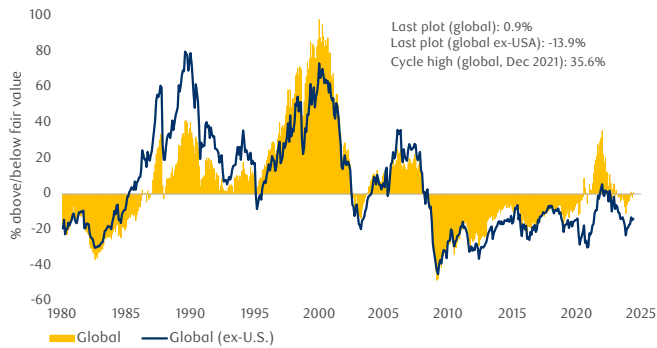
Note: As of May 31, 2024. Source: Bloomberg, RBC GAM

Exhibit 26: Major indices' price change in USD 2023 and YTD 2024



Note: As of May 31, 2024. Magnificent 7 includes Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla. Source: Bloomberg, RBC GAM

Exhibit 27: Global stock-market composite
Equity-market indexes relative to equilibrium



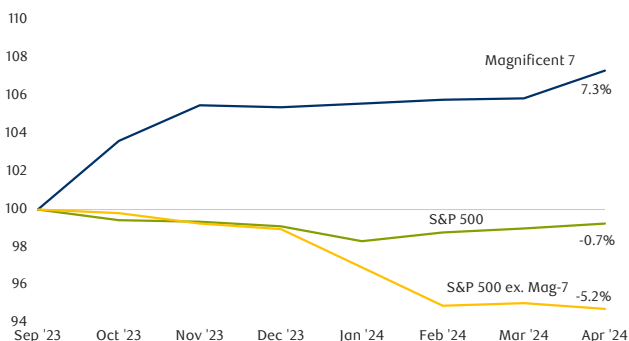
Note: As of May 31, 2024. Source: RBC GAM

U.S. earnings outlook improves, mostly due to Magnificent-7

One of the reasons the S&P 500 is so expensive is that investors appear willing to pay a full price for rapid earnings growth they believe lies ahead. As the year has progressed, the earnings outlook stabilized as the odds of a soft landing improved. Earnings estimates for 2025 and 2026 have been gradually revised higher (Exhibit 28). The prospect of double-digit earnings growth over the next several years has investors willing to pay a premium for those expected profits today.

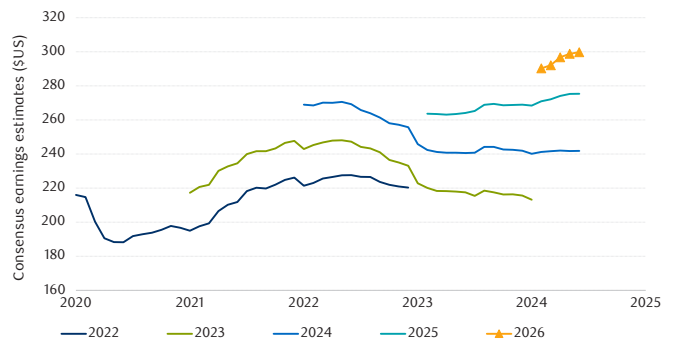
It is worth noting that much of the improved earnings outlook is being driven by the Magnificent 7, and that the outlook

Exhibit 29: EPS estimate revisions for the S&P 500 and Magnificent-7 stocks in 2024



Note: As of May 30, 2024. Source: Bloomberg, RBC GAM

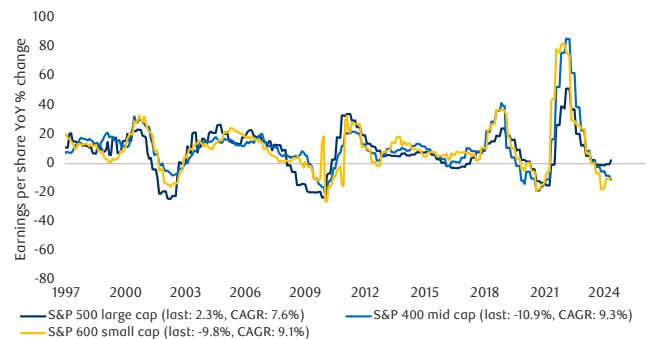
Exhibit 28: S&P 500 Index
Consensus earnings estimates



Note: As of May 31, 2024. Source: Bloomberg, RBC GAM

for earnings in the broader market is not as optimistic. Exhibit 29 plots the progression of the S&P 500's earnings estimate for 2024, separating out the Magnificent 7 as well as the remaining 493 companies in the Index. Note that the earnings estimate for the Magnificent 7 has risen 7.3% while the remaining 493 companies actually underwent a 5.2% downgrade. Moreover, while profits of smaller companies outperformed in the post-pandemic recovery, reported earnings for the S&P 600 Small Cap and S&P 400 Mid Cap indices have actually been declining since late 2022 (Exhibit 30). It's clear that the rapidly rising earnings of U.S. large-cap stocks, and the Magnificent 7 in particular, have been leading indices higher.

Exhibit 30: U.S. equity earnings-growth comparison by cap size – Year-over-year % change, monthly data



Note: As of May 31, 2024. CAGR = compound annual growth rate. Source: Bloomberg, RBC GAM

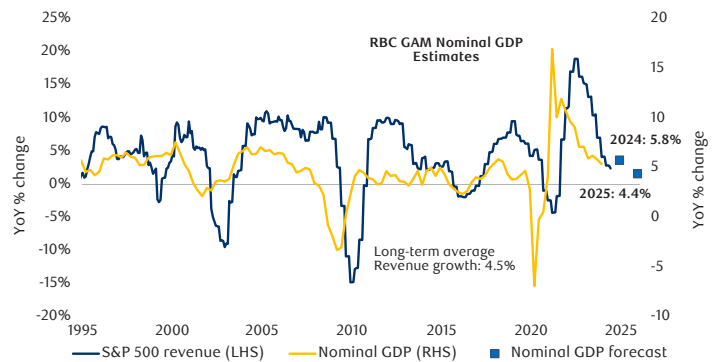
Higher margins are needed to achieve lofty earnings estimates

Consensus earnings estimates, in our view, are highly optimistic given our modest expectations for economic growth. That causes us to question whether the profit projections that are baked into market expectations are achievable. Analysts are looking for a 10% rise in aggregate S&P 500 profit growth in 2024 and a further 14% gain in 2025. In our own analysis, we think of earnings growth as a function of revenue growth and profit margins. This is a helpful framework to forecast profits because revenue growth tends to be highly correlated to economic growth, leaving margins as the variable that bridges the equation. Our forecasts for 5.8% and 4.4% nominal GDP growth for 2024 and 2025, respectively, suggest S&P 500 revenues will rise by roughly those same rates over the next two years (Exhibit 31). If we take this to be true, the only way to generate double-digit profit growth is for profit margins to expand. Margins contracted in 2022 and into 2023 as higher interest rates and other costs weighed on profitability, but they are starting to widen again so far this year (Exhibit 32). The grid in Exhibit 33 outlines a variety of combinations that could work out to achieve the consensus earnings estimates. Based on our math and estimates for nominal GDP, margins would need to expand 70 to 100 basis points both this year and next to achieve the double-digit earnings growth rates reflected in the consensus. Such an increase would lift profit margins to a new record, requiring the economy to achieve a soft landing and for inflation to remain under control.

Scenario analysis suggests limited upside for U.S. equities

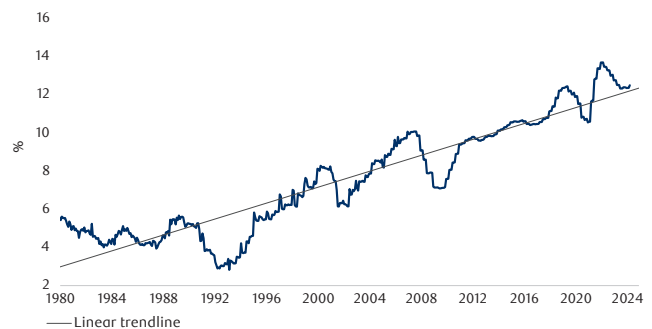
Assuming that the optimistic earnings projections evident in the consensus are realized, elevated valuations would need to be sustained to generate attractive returns for U.S. large-cap stocks. Exhibit 34 outlines a variety of scenarios for the S&P 500 based on combinations of price-to-earnings ratios (P/Es) and the consensus of analysts' earnings estimates for 2024, 2025 and 2026. The equilibrium P/E is the level our models deem appropriate based on current interest rates, inflation, and corporate profitability. If the stock market traded at a P/E of one standard deviation above our modelled estimate of equilibrium and earnings reached US\$244.70 this year, then the S&P 500 would be roughly flat through to the end of the year – an unfavourable outcome. But if

Exhibit 31: United States
S&P 500 revenue and nominal GDP



Note: As of May 31, 2024. Source: RBC CM, RBC GAM

Exhibit 32: S&P 500
Net margin



Note: As of May 31, 2024. Source : Bloomberg, RBC GAM

valuations can remain at one-half to a full standard deviation above equilibrium into 2025 and 2026, with EPS reaching the US\$280 and US\$315 estimates for those years, respectively, then the S&P 500 can generate mid-single digit to low-double digit annualized gains from here. That said, stocks would be vulnerable to disappointment given that a lot of the good news is already priced in and expectations are high. Demanding valuations mean that meeting those optimistic earnings estimates, as well as maintaining elevated investor confidence, are becoming increasingly critical to sustaining the bull market. Moreover, inflation would have to continue falling, allowing central banks to ease financial conditions while the economic expansion persists.

Exhibit 33: S&P 500 EPS scenario analysis based on revenue and net profit margin

		Jan 2024 Current					2024 RBC GAM Projection		2024 FOMC Projection						
		S&P 500 revenue per share and growth													
		-3%	-2%	-1%	0%	1%	2%	3%	4%	5%					
		\$ 1,731	\$ 1,749	\$ 1,766	\$ 1,784	\$ 1,802	\$ 1,820	\$ 1,838	\$ 1,856	\$ 1,873					
Net margin trendline Jan 2024 current 13.7% net margin cycle peak	Net profit margin	11.2%	11.5%	11.8%	12.1%	12.4%	12.7%	13.0%	13.3%	13.6%	13.9%	14.2%	14.5%	14.8%	15.1%
		\$ 193.84	\$ 199.03	\$ 204.22	\$ 209.41	\$ 214.60	\$ 219.80	\$ 224.99	\$ 230.18	\$ 235.37	\$ 240.56	\$ 245.76	\$ 250.95	\$ 256.14	\$ 261.33
		\$ 195.83	\$ 201.08	\$ 206.33	\$ 211.57	\$ 216.82	\$ 222.06	\$ 227.31	\$ 232.55	\$ 237.80	\$ 243.04	\$ 248.29	\$ 253.54	\$ 258.78	\$ 264.03
		\$ 197.83	\$ 203.13	\$ 208.43	\$ 213.73	\$ 219.03	\$ 224.33	\$ 229.63	\$ 234.93	\$ 240.22	\$ 245.52	\$ 250.82	\$ 256.12	\$ 261.42	\$ 266.72
		\$ 199.83	\$ 205.18	\$ 210.54	\$ 215.89	\$ 221.24	\$ 226.59	\$ 231.95	\$ 237.30	\$ 242.65	\$ 248.00	\$ 253.36	\$ 258.71	\$ 264.06	\$ 269.41
		\$ 201.83	\$ 207.23	\$ 212.64	\$ 218.05	\$ 223.45	\$ 228.86	\$ 234.27	\$ 239.67	\$ 245.08	\$ 250.48	\$ 255.89	\$ 261.30	\$ 266.70	\$ 272.11
		\$ 203.83	\$ 209.29	\$ 214.75	\$ 220.21	\$ 225.67	\$ 231.13	\$ 236.59	\$ 242.04	\$ 247.50	\$ 252.96	\$ 258.42	\$ 263.88	\$ 269.34	\$ 274.80
		\$ 205.83	\$ 211.34	\$ 216.85	\$ 222.37	\$ 227.88	\$ 233.39	\$ 238.90	\$ 244.42	\$ 249.93	\$ 255.44	\$ 260.96	\$ 266.47	\$ 271.98	\$ 277.50
		\$ 207.82	\$ 213.39	\$ 218.96	\$ 224.52	\$ 230.09	\$ 235.66	\$ 241.22	\$ 246.79	\$ 252.36	\$ 257.92	\$ 263.49	\$ 269.06	\$ 274.62	\$ 280.19
		\$ 209.82	\$ 215.44	\$ 221.06	\$ 226.68	\$ 232.30	\$ 237.92	\$ 243.54	\$ 249.16	\$ 254.78	\$ 260.40	\$ 266.02	\$ 271.64	\$ 277.26	\$ 282.89
		\$ 209.82	\$ 215.44	\$ 221.06	\$ 226.68	\$ 232.30	\$ 237.92	\$ 243.54	\$ 249.16	\$ 254.78	\$ 260.40	\$ 266.02	\$ 271.64	\$ 277.26	\$ 282.89
		\$ 209.82	\$ 215.44	\$ 221.06	\$ 226.68	\$ 232.30	\$ 237.92	\$ 243.54	\$ 249.16	\$ 254.78	\$ 260.40	\$ 266.02	\$ 271.64	\$ 277.26	\$ 282.89
		\$ 209.82	\$ 215.44	\$ 221.06	\$ 226.68	\$ 232.30	\$ 237.92	\$ 243.54	\$ 249.16	\$ 254.78	\$ 260.40	\$ 266.02	\$ 271.64	\$ 277.26	\$ 282.89
		\$ 209.82	\$ 215.44	\$ 221.06	\$ 226.68	\$ 232.30	\$ 237.92	\$ 243.54	\$ 249.16	\$ 254.78	\$ 260.40	\$ 266.02	\$ 271.64	\$ 277.26	\$ 282.89

 Current S&P 500 12-m trailing EPS is \$221.24
 Consensus S&P 500 EPS estimate for year-end 2024 is \$243
 Consensus S&P 500 EPS estimate for year-end 2025 is \$273

Note: RBC GAM projection based Summer 2024 forecasts for U.S. real GDP of 2.4% and inflation of 3.4%. Based on regressions translates to 5.1% revenue growth. FOMC projection based on June 2024 summary of economic projections published by the Fed for 2.1% real GDP growth and 2.6% inflation in 2024. As of May 31, 2024. Source: Bloomberg, RBC GAM

Exhibit 34: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500

		Consensus	Total Return			Consensus	Total Return		
		2024	2024			2025	2025		
		2026	2026			2026	2026		
	P/E	\$244.7		P/E	\$279.7		P/E	\$314.8	
+1 Standard Deviation	21.7	5321.4	2%	22.2	6197.4	12%	22.2	6976.1	13%
+0.5 Standard Deviation	19.5	4778.8	-9%	19.9	5565.5	5%	19.9	6264.8	8%
Equilibrium	17.3	4236.2	-19%	17.6	4933.5	-3%	17.6	5553.4	3%
-0.5 Standard Deviation	15.1	3693.6	-29%	15.4	4301.6	-11%	15.4	4842.1	-2%
-1 Standard Deviation	12.9	3151.0	-39%	13.1	3669.7	-19%	13.1	4130.8	-7%

Note: As of May 31, 2024. Total returns for 2025 and 2026 are annualized. Source: LSEG I/B/E/S, RBC GAM

Monitoring for signs of shifting leadership – nothing so far

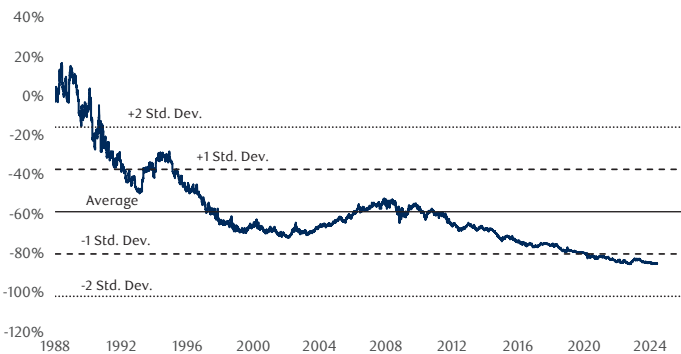
Market leadership across styles, market capitalization and geography has been stuck in U.S. large-cap growth stocks almost without interruption over the past decade. Value stocks have underperformed growth stocks by 18 percentage points since the start of 2023, extending the underperformance to nearly 40 percentage points over the past decade (Exhibit 35). U.S. small-cap stocks have fallen to their lowest point relative to large caps in 22-years (Exhibit 36). International equities as proxied by the MSCI EAFE Index have fallen near a record relative-strength low, and emerging-market equities have nearly fully reversed their gains relative to developed markets since the early 2000s

amid a strengthening U.S. dollar (exhibit 37 and 38). These trends are consistent with a sluggish economic backdrop. Our confidence in a durable bull market going forward would improve if we were to see a broadening of leadership away from U.S. large-cap growth and AI-related names, to value, small caps, international and emerging-market stocks.

Maintaining near strategic neutral asset allocation, with slight tilt to fixed income

Our base case scenario has the economy experiencing a soft landing, inflation falling gradually toward central bankers' 2% targets and central banks delivering modest monetary easing. We recognize there are a wide range of potential outcomes around the base case. The risks centre on

Exhibit 35: Value to growth relative performance
S&P 500 Value Index / S&P 500 Growth Index



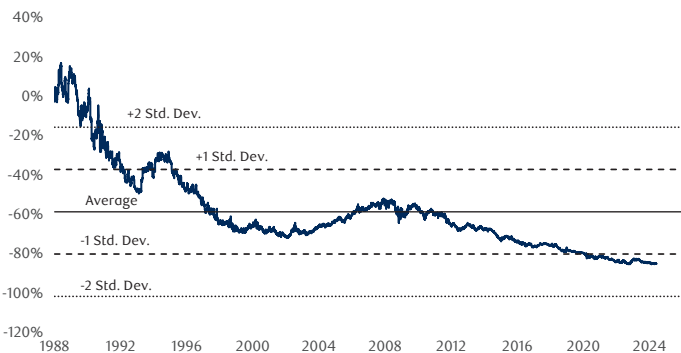
Note: As of May 31, 2024. Source: Bloomberg, RBC GAM

Exhibit 36: U.S. small caps versus large caps
Russell 2000 Index / S&P 500 Index



Note: As of May 31, 2024. Source: Bloomberg, RBC GAM

Exhibit 37: Relative performance
MSFI EAFE TR USD vs S&P 500 TR USD



Note: As of May 31, 2024. Source: Bloomberg, RBC GAM

Exhibit 38: Relative performance
MSCI World versus MSCI Emerging Markets



Note: As of May 31, 2024. Source: MSCI, Bloomberg, RBC GAM

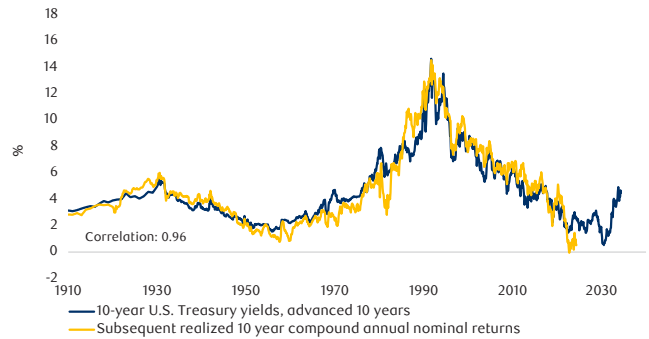
inflation being more stubborn than expected, but include the upcoming U.S. election, geopolitical tensions and questions around China’s economic growth.

Against this backdrop, prospective returns for fixed income appear pretty good. The U.S. 10-year yield is hovering not far below its highest level since just before the 2008-2009 global financial crisis and offers attractive return potential. The current yield to maturity offers a good indication of what investors will earn on a sovereign bond over the next decade (Exhibit 39). The relationship in the chart suggests that investing in U.S. 10-year Treasury bonds at a 4.5% yield will produce a 4.5% annualized return over the next decade. Investors could well earn more than that in the shorter term should economic difficulty prompt a bid for safe-haven assets. We look for mid-single-digit to high-single-digit returns for sovereign bonds over the year ahead.

Stocks still offer superior return potential to bonds but the upside has been reduced significantly as a result of the latest rally. A reliable tool for forecasting S&P 500 returns over the next decade has been Shiller’s Cyclically Adjusted P/E (CAPE) (Exhibit 40). This chart suggested return possibilities of as much as a 9% annualized for a decade, measured from the late 2022 bottom of the last bear market. However after the nearly 50% rally since then, the return outlook has been reduced to 6%, which is still higher than the expectation for sovereign bonds but the gap has narrowed meaningfully. In fact, the equity-risk premium, as measured by the S&P 500 earnings yield minus the U.S. 10-year yield is effectively nil as a result of both rising equity valuations and rising bond yields since the pandemic, suggesting limited appeal in stocks versus bonds (Exhibit 41).

Recognizing the improved outlook for bonds and demanding valuations in stocks, as well as the wide range of potential outcomes for the economy and markets, we feel it is appropriate to maintain an asset allocation close to our neutral setting, with a slight tilt in bonds. We would consider increasing our exposure to stocks should the equity-risk premium widen, or if we saw a broadening in the equity-market rally beyond mega-cap technology and themes other than artificial intelligence. For a balanced global investor, our current recommended asset mix is 60.0% equities (strategic “neutral”: 60.0%), 38.5% bonds (strategic “neutral”: 38.0%) and 1.5% cash.

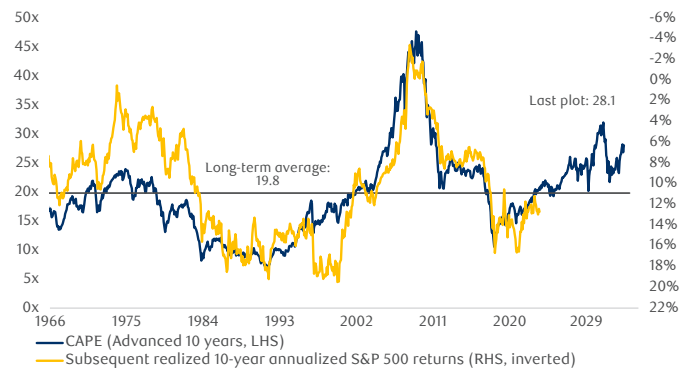
Exhibit 39: U.S. 10-year Treasury note and returns



Note: As of May 31, 2024. Source: Deutsche Bank, Macrobond, RBC GAM

Exhibit 40: Shiller’s CAPE

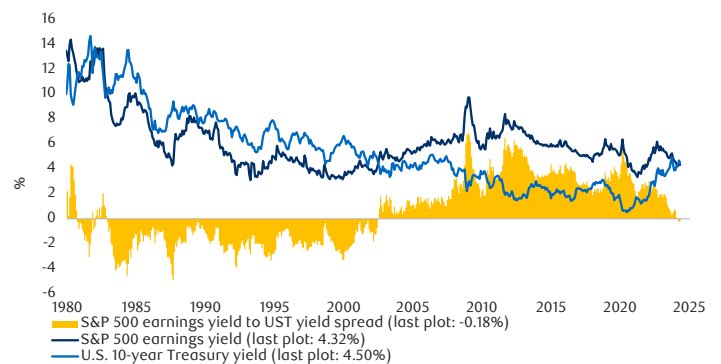
Real S&P 500 Index / 10-year average of real EPS



Note: As of May 31, 2024. Source: Macrobond, Bloomberg, RBC GAM

Exhibit 41: S&P 500 earnings yield

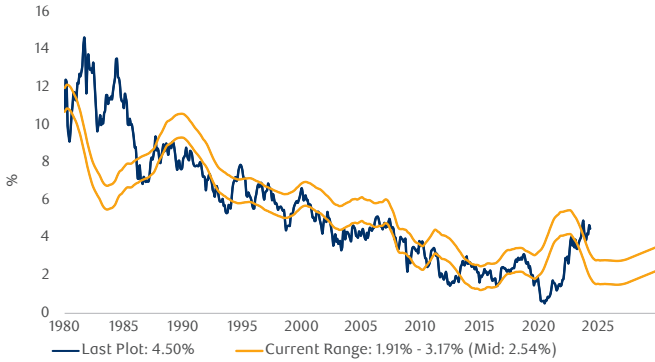
12-month trailing earnings/index level



Note: As of May 31, 2024. Source: RBC GAM

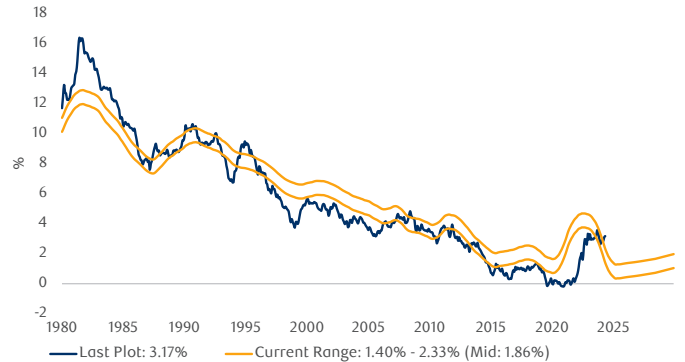
Global fixed income markets

U.S. 10-Year T-Bond Yield Equilibrium range



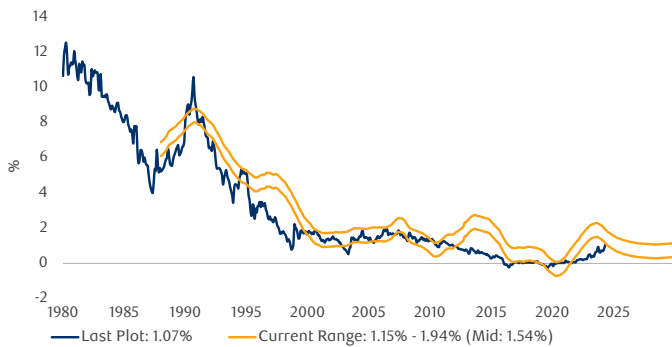
Note: As of May 31, 2024. Source: RBC GAM

Eurozone 10-Year Bond Yield Equilibrium range



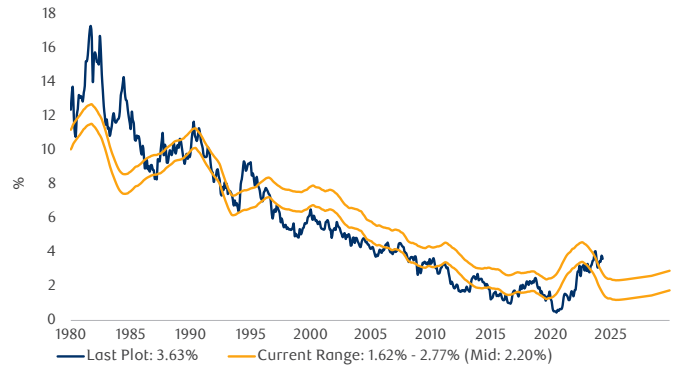
Note: As of May 31, 2024. Source: RBC GAM

Japan 10-Year Bond Yield Equilibrium range



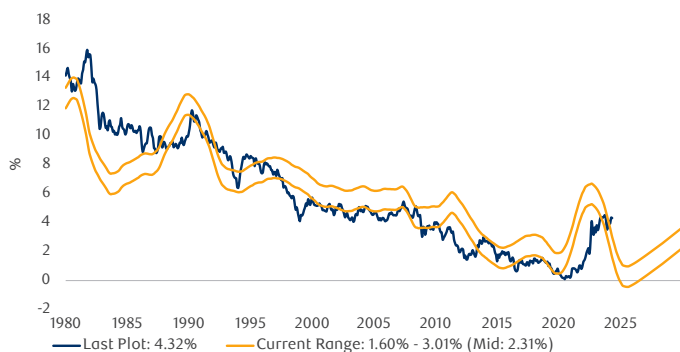
Note: As of May 31, 2024. Source: RBC GAM

Canada 10-Year Bond Yield Equilibrium range



Note: As of May 31, 2024. Source: RBC GAM

U.K. 10-Year Gilt Equilibrium range



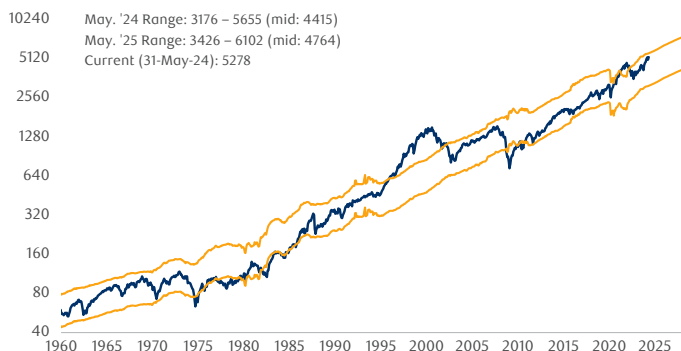
Note: As of May 31, 2024. Source: RBC GAM

“In our view, sovereign bonds look appealing at current levels in all major regions except Japan, where yields are still below the band and represent heightened valuation risk.”

Global equity markets

S&P 500 Equilibrium

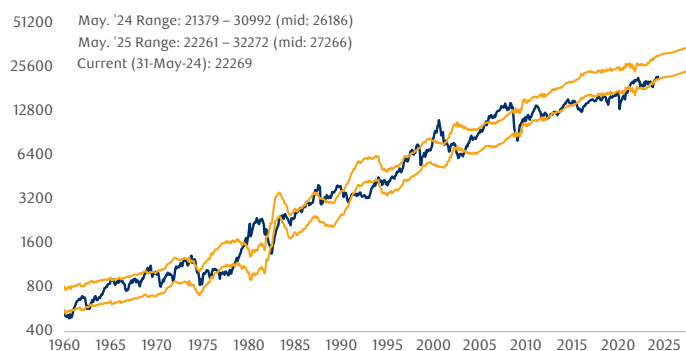
Normalized earnings and valuations



Note: As of May 31, 2024. Source: RBC GAM

S&P/TSX Composite Equilibrium

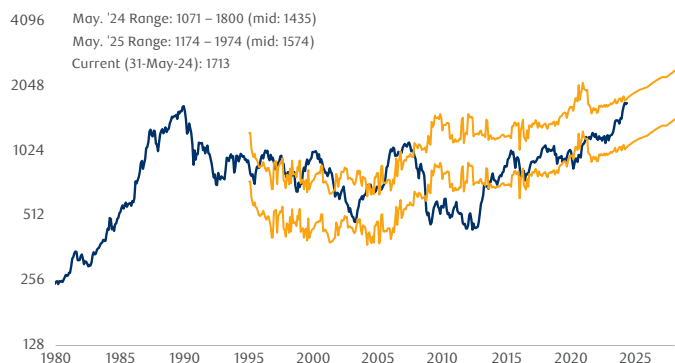
Normalized earnings and valuations



Note: As of May 31, 2024. Source: RBC GAM

MSCI Japan Index

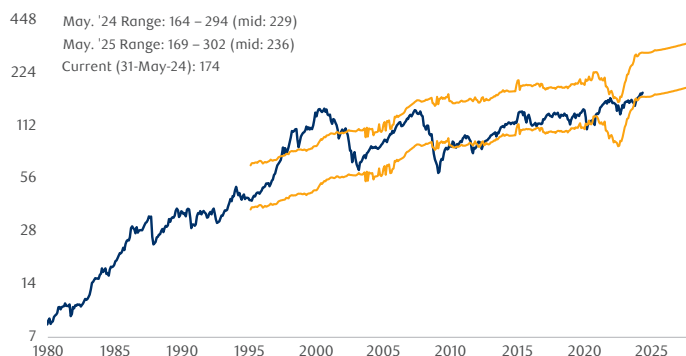
Normalized earnings and valuations



Note: As of May 31, 2024. Source: RBC GAM

MSCI Europe Index

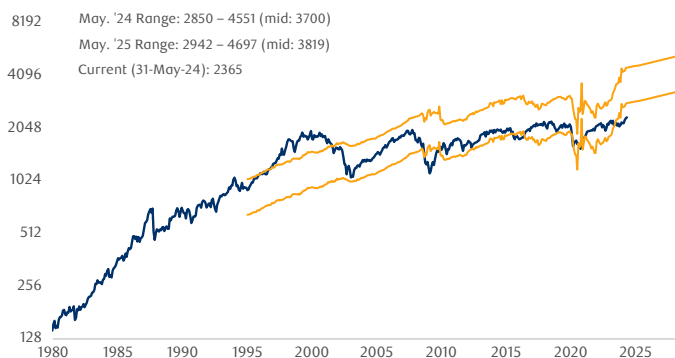
Normalized earnings and valuations



Note: As of May 31, 2024. Source: RBC GAM

MSCI UK Index

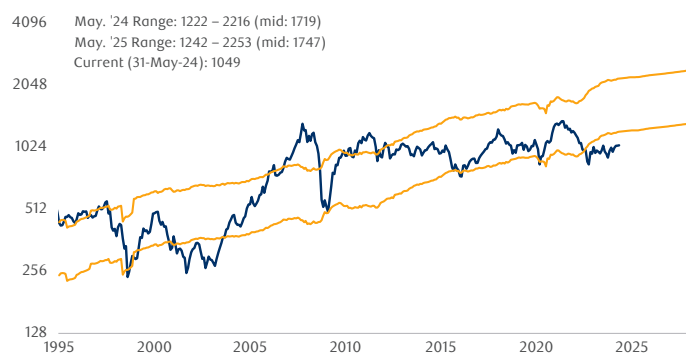
Normalized earnings and valuations



Note: As of May 31, 2024. Source: RBC GAM

MSCI Emerging Markets Index

Normalized earnings and valuations



Note: As of May 31, 2024. Source: RBC GAM

Note: The 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.



Global fixed income markets



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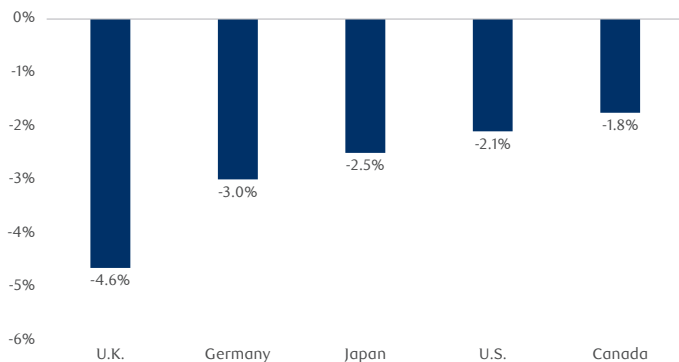
Joanne Lee, MFin, CFA
Senior Portfolio Manager
RBC Global Asset
Management Inc.



Taylor Self, MBA, CFA
Portfolio Manager
RBC Global Asset
Management Inc.

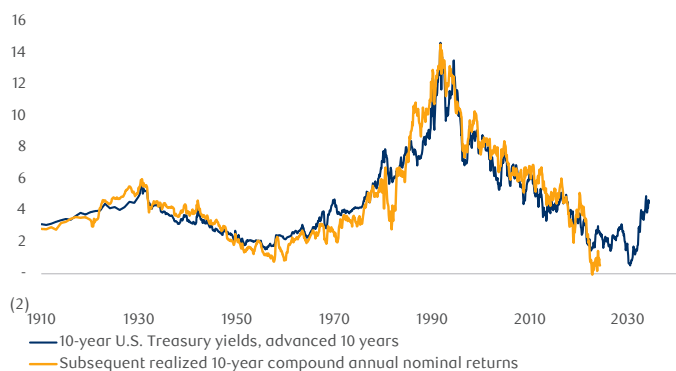
Global government-bond yields have risen since the last edition of the *Global Investment Outlook*, reflecting tempered investor expectations for central banks to cut interest rates. In the U.S., too-high inflation has been more persistent than expected and economic growth in the first half of 2024 better than forecast. Because of rising yields, government bonds in all major markets have posted losses so far this year (Exhibit 1).

Exhibit 1: Global government bonds have had a poor start to 2024 – Year-to-date returns for select government-bond markets



Note: As of May 31, 2024. All returns are expressed in currency-hedged terms to Canadian dollars. Source: FTSE Russell

Does this portend another year of negative total returns for bonds? We don't believe so. Some of this year's poor performance is due to timing: Bond yields fell sharply just before the turn of the year and have since risen. Since last October, when yields reached multi-year highs, bonds have recorded positive returns as yields are now lower. Higher and more volatile yields mean simply that bond returns have become more variable than investors have grown accustomed to since the financial crisis. However, higher yields also provide investors with higher expected bond returns. Over the long run, a bond's current yield to maturity is a good guide for future returns (Exhibit 2), so investors can expect returns of around 4.50% per year on the U.S. 10-year government bond if held to maturity. Over the next 12 months, we forecast that bond returns will likely be better than that as we expect most central banks to cut interest rates.

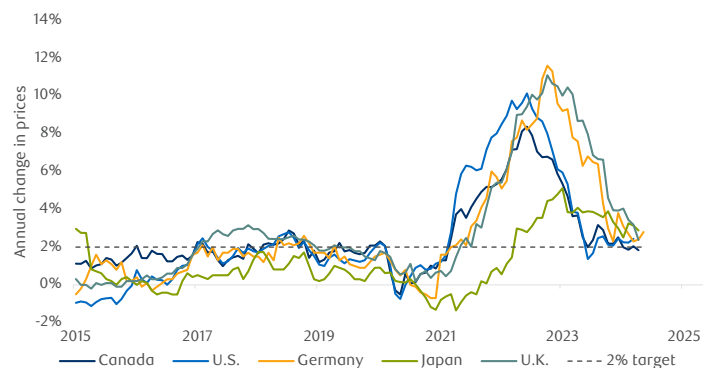
Exhibit 2: U.S. 10-year Treasury note and returns

Note: As of May 31, 2024. Source: Deutsche Bank, Macrobond, RBC GAM

Policymakers in Europe and Canada have delivered their first interest-rate cut this cycle while those in the UK should follow suit before the end of the summer. The U.S. Federal Reserve (Fed) is likely to start lowering rates a little bit later, probably in the fall. Lower inflation means that policymakers can shift their focus toward supporting growth and labour markets, which have softened everywhere. This means rate cuts.

Policymakers tentatively admit that interest rates have likely peaked but are reluctant to endorse the suggestion that substantial easing of monetary policy is in the offing, which would be a boon for bond returns. For their part, investors expect central bankers to deliver between 75 and 125 basis points of cuts over the next year in Canada, Europe, the U.S. and the UK. Such decreases appear paltry compared with the several hundred basis points of rate hikes delivered over the past several years. Policy rates priced in forward markets two and three years from today are still well above those that prevailed before the pandemic. Measured against estimates of so-called neutral rates (the rate of interest at which monetary policy neither stimulates nor restricts growth), it appears that investors expect monetary policy will remain in restrictive territory for the next decade.

In effect, market expectations imply that there is no risk of recession or need for easy monetary policy over the next 10 years. This seems unlikely. We can agree that the immediate

Exhibit 3: Global inflation remains above target everywhere except Canada

Note: As of April 2024. Source: National statistical agencies, RBC GAM

risk of recession has receded. RBC GAM no longer expects a recession in the U.S. over the next year, and in the near term it doesn't appear that most economies need substantial help from monetary policy. While inflation has fallen precipitously, it remains above target in all regions even after accounting for methodological differences (Exhibit 3). Unemployment has risen, but from levels that were probably too low to be sustained without generating yet more inflation. Over the course of a decade, however, it is almost certain that many economies will experience at least one recession and that central bankers will cut rates more than currently expected. To us, this makes bonds attractive.

High expectations for policy rates through the long term could also be explained by the idea that perhaps the interest rates that economies would find restrictive have risen since the pandemic. Higher government deficits and greater investment needs to battle climate change – alongside the higher debt-servicing costs that accompany those burdens – can slow rather than accelerate growth. We are not as convinced about higher neutral fed funds rates as the market appears to be. We are more convinced that the market should price in a larger premium to lend over long time frames – the so-called term premium. Over time, we expect the Treasury yield curve to steepen, with 10-year securities offering investors higher yields than 2-year bonds, something that hasn't happened since July 2022.

We think that with inflation having slowed at the fastest pace in three decades and unemployment rising, central bankers can conclude that current policy rates are indeed restrictive. As inflation falls further, we think most central banks will provide some cuts to markets, pushing down bond yields, particularly on bonds maturing over the next two to three years.

The fly in the ointment for this story of restrictive interest rates, falling inflation and coming rate cuts is the relative success of the U.S. economy in shrugging off sharply higher rates. Policymaking at the national level does not happen in a vacuum. The recent stickiness of price pressures and above-trend growth in the U.S. reduces the confidence of other central bankers that price pressures in their own economies have abated more quickly due to policy or simply reflect the waning impact of pandemic-related supply shortages. What

is more, growth has been picking up in Europe, which has experienced particularly sluggish activity, and this trend may obviate the need for sharp interest-rate cuts to support the economy.

To be sure, we don't anticipate a return to the pre-COVID period of exceptionally low interest rates. What we do expect is a return to more normal conditions, even without a recession. Inflation closer to policymakers' targets and rising unemployment suggest that at least some monetary accommodation is appropriate.

We think most central banks will ease policy as the year progresses. Disinflation should continue in most countries and, after surprisingly high U.S. inflation to start the year, inflation has started easing again in the U.S.

Direction of rates



We expect that Treasury yields will be broadly unchanged, with the 10-year bond yield trading around the current 4.50% level over the next year.

United States

The U.S. economy posted another period of decent growth through the first three months of the year. Worryingly, inflation also picked up much more than expected. To be sure, we expect inflation to cool over the balance of 2024 and into 2025 given our view that the current stance of monetary policy is restrictive. While not our base case over the next 12 months, rising unemployment and cooling demand raise the odds of a recession. Against this backdrop, we expect the Fed to ease policy from current levels. Our base case forecast is that the target range for the fed funds rate will decline over the next 12 months to between 4.50% and 4.75% from the current 5.25% to 5.50%, with cuts beginning in the second half of 2024. We expect that Treasury yields will be broadly unchanged, with the 10-year bond yield trading around the current 4.50% level over the next year.





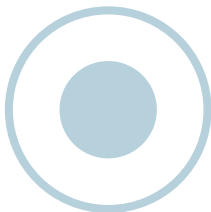
German 10-year government bond yields already reflect much of the expected decline in policy rates, and we expect them to be about the same in a year, at 2.40%.

Eurozone

The eurozone economy, in contrast to the U.S., continues to exhibit disinflation as the transitory effects from the pandemic and the rise in oil and natural-gas prices due to the war in Ukraine fade. Economic growth has been weak, suggesting that monetary policy is tight. Inflation has now slowed more than in the U.S., leading the European Central Bank (ECB) to lower its policy rate 25 basis points on June 6, the ECB's first cut since September 2019.

The case for easier monetary policy is stronger in Europe considering the starkly different backdrop for public spending. Unlike in the U.S., the fiscal largesse that has bolstered growth, particularly in Italy and Spain, is likely to subside sharply this year. Several nations are likely to be hemmed in by the EU's requirements that members maintain fiscal discipline, possibly leading to persistent fiscal headwinds over several years, barring a recession and subsequent loosening of restrictions on government spending.

Wage growth in Europe remains too high to generate inflation at 2% or below when measured versus a year ago but is slowing measurably. We think that inflation has likely slowed enough for the ECB to confidently lower policy rates. Wage demands seem to be easing alongside inflation. Ultimately, we think a cooling economy and slowing inflation will encourage the ECB to continue cutting rates – with the deposit rate falling from 3.75% now to 2.50% in a year's time. German 10-year government bond yields already reflect much of the expected decline in policy rates, and we expect them to be just slightly lower in a year, at 2.40%.



We forecast the benchmark interest rate at 0.20% in a year's time. Meanwhile, we expect bond yields to rise, with the yield on the 10-year Japanese government bond reaching 1.25% in the year ahead.

Japan

Bond yields in Japan continue to rise, reflecting expectations that policy rates will climb. The 10-year government-bond yield rose above the key psychological level of 1.00% in late May and we think further increases are likely over the next year. Japan is experiencing a profound increase in realized and expected inflation that it has not experienced since the 1990s. Even with a relatively weak economy, Japanese workers are enjoying the strongest wage growth in the G7 group of developed nations.

The Bank of Japan (BOJ) has signalled its intention to raise interest rates by permitting government bond yields to rise. The BOJ's policy rate should rise above zero for the first time since 2016. We forecast the benchmark interest rate at 0.20% in a year's time. Meanwhile, we expect bond yields to rise, with the yield on the 10-year Japanese government bond reaching 1.25% in the year ahead.



We expect the BOC policy rate will fall to 4.00% over the next 12 months, and that the Canadian 10-year government bond will yield 3.50%, down from 3.63% at the time of writing.

Canada

On June 5, the Bank of Canada (BOC) dropped its policy rate for the first time since the pandemic, a 25-basis-point reduction to 4.75%. The move by the central bank reflected a greater degree of comfort that core inflation is waning. Consumer inflation has slowed for four straight months, with annual inflation easing to a three-year low of 2.7% in April, and the BOC's preferred three-month annualized measures (so-called CPI-median and CPI-trimmed) of core inflation dropped to 1.5% and 1.8%, respectively, below the 2% target. These inflation statistics point to rate cuts starting this summer. The BOC expects to continue shrinking its balance sheet - a process known as quantitative tightening (QT) - into 2025 (versus previous guidance of late 2024 or early 2025) and to continue with QT.

We expect policy rates in Canada to come down faster than they will in the U.S., where growth and inflation are stronger. The two central banks have been as much as 100 basis points apart on policy rates since 2000, compared with the current spread of about 60 basis points.

The BOC's pivot to monetary-policy easing would probably be gradual given the risk of stoking another bout of faster-than-target inflation. We expect the BOC policy rate will fall to 4.00% over the next 12 months, and that the Canadian 10-year government bond will yield 3.50%, down from 3.63% at the time of writing.




We pencil in four BOE cuts over the next 12 months to 4.25% from 5.25% and expect 10-year bonds to trade around ranges observed in recent months, with a forecast of 4.10%.

United Kingdom

The UK labour market continues to show signs of weakness. Job vacancies are coming down swiftly, and wage growth is expected to slow from the current high level. Softening wage growth, especially in services, is expected to help reduce inflation, taking the edge off an area that has been keeping the inflation rate above the Bank of England's (BOE) target. The BOE's rate-setting monetary-policy committee recently telegraphed that lower rates are coming when it reduced its forecast for intermediate-term inflation and said the risk of persistent inflation is declining. As the first rate cut approaches, the debate will shift to the speed and size of rate cuts, exerting downward pressure on gilt yields. However, as Britons go to the polls in July, the next government faces a challenge related to its fiscal position, ultimately raising questions about the sustainability of the country's debt. A lack of attention to fiscal discipline could prompt bond investors to demand higher yields as compensation for factors including slowing growth, deteriorating public services, falling living standards, high debt-servicing costs and a poor historical record of controlling inflation. We pencil in four BOE cuts over the next 12 months to 4.25% from 5.25% and expect 10-year bonds to trade around ranges observed in recent months, with a forecast of 4.10%.

Regional recommendations



We have no regional recommendations this quarter. The global rise in interest rates and prospect of policy rate cuts has increased the attractiveness of bonds. We recommend being overweight fixed income.

Interest-rate forecast: 12-month horizon

Total-return calculation: May 31, 2024 – May 31, 2025

U.S.						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.75%	4.50%	4.45%	4.50%	4.70%	4.71%
Change to prev. quarter	0.49%	0.75%	0.65%	0.50%	0.40%	
High	6.25%	5.75%	5.20%	5.00%	4.90%	2.26%
Low	3.00%	3.00%	3.25%	3.50%	3.90%	10.19%
Expected Total Return US\$ hedged: 5.3%						

Germany						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.50%	2.20%	2.25%	2.40%	2.65%	5.12%
Change to prev. quarter	0.25%	0.30%	0.25%	0.05%	0.05%	
High	4.00%	3.60%	3.30%	3.25%	3.25%	(1.17%)
Low	1.75%	1.50%	1.75%	2.00%	2.50%	7.00%
Expected Total Return US\$ hedged: 6.2%						

Japan						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.20%	0.50%	0.70%	1.25%	2.25%	1.79%
Change to prev. quarter	0.10%	0.10%	0.10%	0.25%	0.25%	
High	0.50%	0.80%	1.00%	1.50%	2.65%	(3.15%)
Low	0.05%	0.05%	0.25%	0.50%	1.45%	13.44%
Expected Total Return US\$ hedged: 6.4%						

Canada						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.00%	3.75%	3.60%	3.50%	3.50%	4.08%
Change to prev. quarter	0.00%	0.00%	0.00%	0.00%	0.00%	
High	5.50%	5.25%	5.00%	4.75%	4.50%	-2.21%
Low	2.50%	2.25%	2.50%	2.75%	2.90%	9.03%
Expected Total Return US\$ hedged: 4.2%						

U.K.						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.25%	4.00%	3.90%	4.10%	4.70%	5.72%
Change to prev. quarter	0.00%	0.25%	0.10%	0.10%	0.20%	
High	5.75%	5.50%	5.25%	5.00%	4.85%	1.70%
Low	3.50%	3.25%	3.00%	3.25%	4.25%	11.15%
Expected Total Return US\$ hedged: 6.0%						

Source: RBC GAM



Currency markets

Dollar's underwhelming rally hints at longer-term headwinds



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Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

A number of themes have emerged in foreign-exchange markets over the past quarter, and with them some tough questions still to be answered. Chief among these is whether our longer-term outlook for U.S.-dollar weakness should be reassessed given the resilient U.S. economy. How does the persistence of inflation globally affect this calculus? Are there important signals in the rise of gold prices? Can Japanese currency intervention arrest the greenback's gains, and what might such action mean for investors aiming to capitalize on the wide gap between U.S. and Japanese interest rates?

Economic and market developments have been undeniably U.S. dollar-positive so far this year. The stronger-than-expected U.S. economy and more persistent inflation than in other countries have caused investors to expect that the U.S. Federal Reserve (Fed) will take longer to cut interest rates, delaying more than 100 basis points of rate reductions that were previously expected to materialize before the end of 2024. The related increase in longer-term bond yields places the U.S. dollar as one of the highest-yielding among developed nations – a position further cemented by the European Central Bank's (ECB) rate cut in early June.

It's notable, then, that the dollar has not performed better than it has. On a trade-weighted basis, the currency has remained within a relatively tight range for more than a year. While the dollar is 3% stronger than where it stood in January, it remains roughly 8% below its 2022 peak (Exhibit 1). Such a muted performance hardly justifies the level of enthusiasm

Exhibit 1: U.S. dollar still below 2022 peak



Note: As at June 4, 2024. Source: Bloomberg, RBC GAM

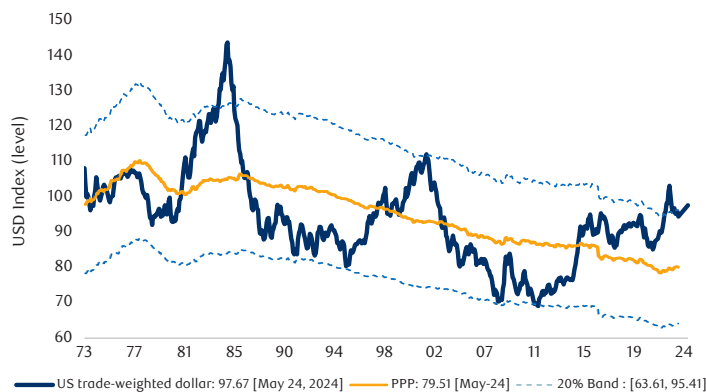
expressed in the media for “U.S. exceptionalism.” The inability of the dollar to gain better traction amid strong U.S. economic data is, we think, due to longer-term negatives that are holding back the currency. The greenback may indeed remain elevated, but the extent to which it can gain further ground is limited with valuations already so stretched. We have often cited that purchasing-power-parity models suggest that the dollar is more than 20% rich (Exhibit 2), but most other models – including those that consider a broader set of economic variables – offer the same assessment.

The reckless pace of fiscal spending is one concern that might be restraining the dollar’s gains. The U.S. federal debt held by the public has climbed to nearly 100% of GDP from 35% two decades ago, and the Congressional Budget Office (CBO) expects deficits to continue. According to CBO estimates, net interest payments are set to rise to nearly 4% of GDP within 10 years, nearly three times higher than before the Fed began hiking interest rates in 2021. Conscious of the government’s

need to finance these larger deficits with increased bond issuance, traders are paying more heed to weekly debt auctions. Any sign that investors are demanding higher yields to own U.S. government debt would be a concern, especially as some of the largest owners of Treasuries have been reducing their holdings (Exhibit 3).

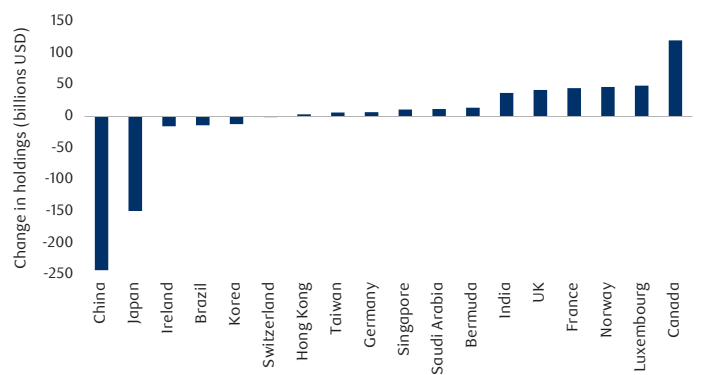
A related threat for the greenback comes from concern about policies that might be pursued if Republican Donald Trump wins November’s U.S. presidential election. Press reports suggest Trump might demand, among other things, that he be consulted on interest-rate moves, explicitly target a lower U.S. dollar and attempt to punish countries that shift away from using the U.S. dollar to conduct trade. Such measures would likely stoke inflation, jeopardize the Fed’s independence and accelerate the trend toward de-dollarization – prompting investors to demand higher yields in exchange for holding U.S. assets.

Exhibit 2: USD – Purchasing Power Parity Valuation



Note: As at May 24, 2024. Source: U.S. Federal Reserve, Bloomberg, RBC GAM

Exhibit 3: Change in U.S. Treasury holdings between December 2021 and March 2024

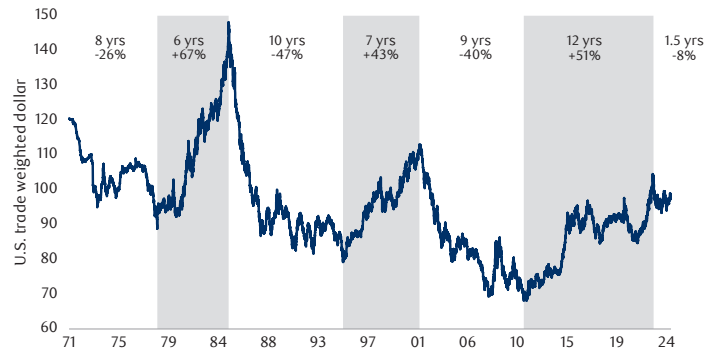


Note: As at: March 31, 2024. Source: Bloomberg, RBC GAM

We would like to think there are institutional checks on how far Trump could go with such policies. However, the fact that these ideas are even being discussed may signal that the dollar could face much more serious risks in coming years than most forecasters appreciate. Gold's 30% price increase in less than a year is likely due in part to a recognition that U.S. economic policies are not necessarily consistent with maintaining global leadership over the long term.

We've argued for some time that the dollar is in the beginning of a longer-term decline that could continue for several years (Exhibit 4). The currency's persistent overvaluation, relentless U.S. fiscal spending and the threats posed by a second Trump presidency seem to support this longer-term outlook. However, the impact of fiscal spending on short-term growth and inflation means that the Fed is likely to keep interest rates elevated. The U.S. interest-rate advantage over other regions has been the most important consideration for currency traders this year (Exhibit 5), and so the dollar's descent is less likely to occur without a drop in interest rates. As government spending is exhausted and as inflation moderates, we expect that the Fed will start cutting rates later this year and that it will reduce interest rates three times within our 12-month horizon. In this context, any gains in the U.S. dollar from an overvalued starting point are likely to be limited. Over the course of our 12-month forecast horizon, we think the dollar will be pulled lower by a slowdown in fiscal spending, rate cuts and rich valuations.

Exhibit 4: Long-term cycles in the U.S. trade-weighted dollar



Note: As at May 17, 2024. Source: Bloomberg, U.S. Federal Reserve, RBC GAM

Exhibit 5: U.S. dollar tightly linked to interest-rate spreads



Note: As at May 28, 2024. Source: Bloomberg, RBC GAM

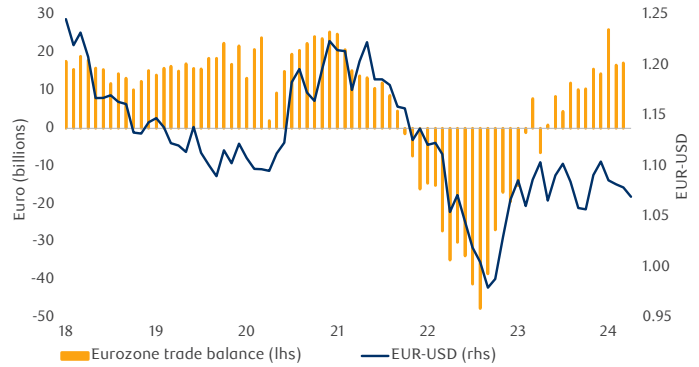


The euro

With all the focus on the U.S., it seems as though developments in the eurozone have been largely ignored. This is now changing because, just as economic trends begin to soften in the U.S., business sentiment has improved in Europe - particularly in key service sectors. Investors' focus has been further drawn away from U.S.-centric drivers of exchange rates by the eurozone's improving trade balance, which has returned to surplus (Exhibit 6) amid a recovery in Chinese demand and a decline in natural-gas prices. The euro seems so far to have lagged this improvement, as traders remain skeptical about the region's growth prospects and wary of ECB rate cuts that would reduce euro yields. We know that it will take more than a few months of stronger economic data to convert the community of euro skeptics, but the improvement has already stoked a newfound appetite for attractively valued European stocks. Investors outside the eurozone, for instance, have poured approximately 200 billion euros into European equities over the past year (Exhibit 7), and investors within the single-currency bloc have large amounts of overseas assets that could be repatriated.

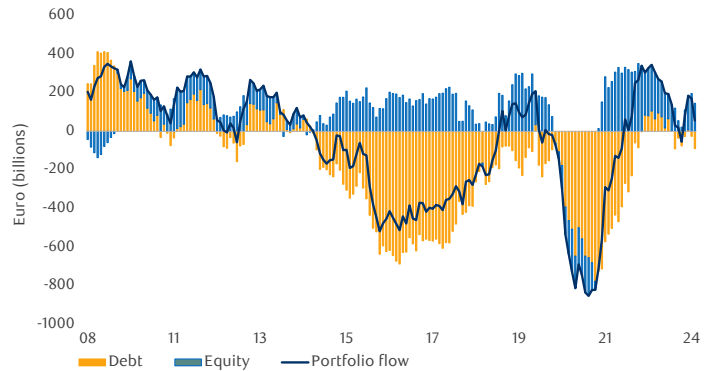
Plotting the euro against other market variables such as stocks, credit spreads and interest-rate gaps, it appears the single currency may be a bit oversold. Those factors and others suggest the euro should be trading closer to US\$1.15-US\$1.20 rather than the current exchange rate of US\$1.08 (exhibits 8 and 9). We forecast that the single currency will reach US\$1.21 within 12 months.

Exhibit 6: Eurozone trade surplus



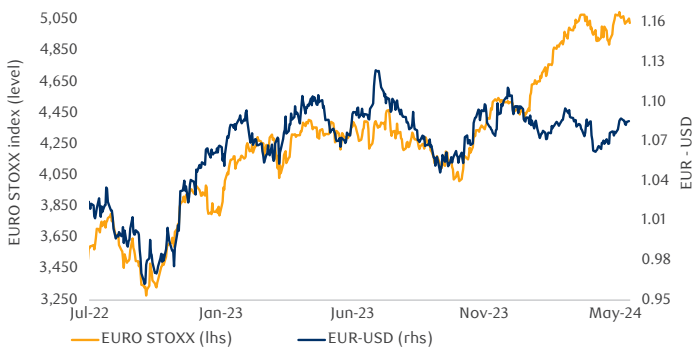
Note: As at May 31, 2024. Source: Bloomberg, Eurostat, RBC GAM

Exhibit 7: Portfolio inflows from foreign demand for European equities



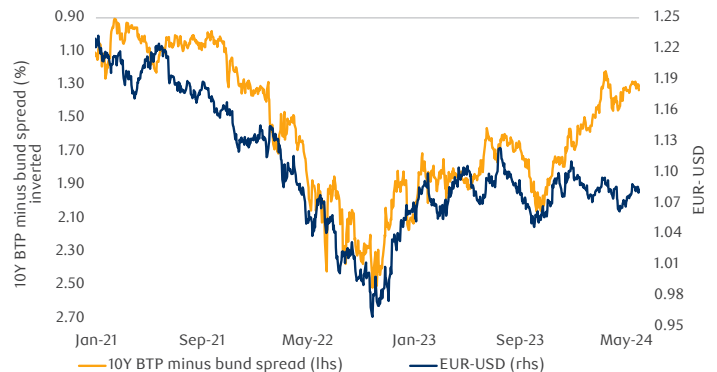
Note: 12 month rolling sum. As at March 31, 2024. Source: ECB, RBC GAM

Exhibit 8: European equities point to a higher euro



Note: As at May 28, 2024. Source: Bloomberg, RBC GAM

Exhibit 9: Peripheral spreads point to a higher euro



Note: As at May 30, 2024. Source: Bloomberg, RBC GAM

Yen

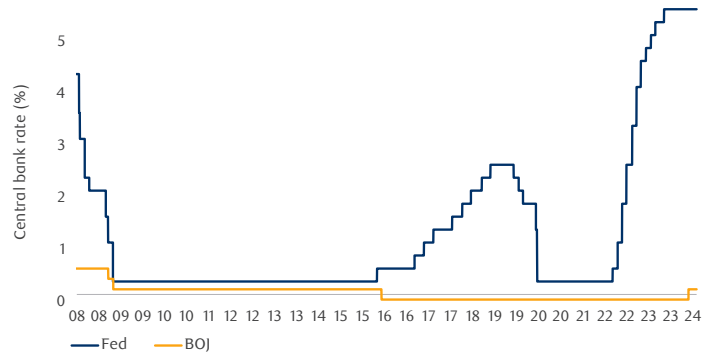
Japanese authorities have been warning for several months that the yen's weakness was unwelcome. So it was hardly a surprise when the Ministry of Finance intervened in currency markets following the yen's weakness to 160 per dollar in late April. What was surprising was that the US\$63 billion in foreign-exchange spent to prop up the yen had hardly any impact. The yen's appreciation to 152 per dollar was mostly unwound within a few weeks.

The limited impact of Japanese intervention was due, in our view, to the failure of authorities to align the move with a supportive shift in monetary policy. In fact, the wide gap between Japanese policy rates (now at 0%) and those in the U.S. (5.50%) is the principal reason why the yen is weaker in the first place (Exhibit 10).

We are now slightly less bullish on the yen, not because we had been expecting anything more than the miniscule 0.10% incremental shifts in Bank of Japan's policy rate, but because the delay in Fed rate cuts has maintained the gap in yields between the two currencies.

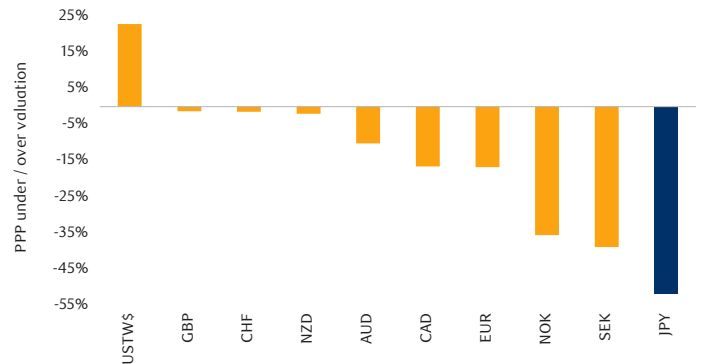
Valuation metrics rank the yen as one of the world's cheapest currencies based on purchasing power (Exhibit 11). The discount is unlikely to outweigh the yen's steep yield disadvantage, but it does set a floor below which traders will be reluctant to sell. Our forecast for the yen to strengthen back to 140 hinges on broad weakness in the U.S. dollar –which we think will begin to materialize this year alongside Fed rate cuts.

Exhibit 10: Policy-rate gap underpins yen weakness



Note: As at June 05, 2024. Source: BOJ, Federal Reserve, RBC GAM

Exhibit 11: Yen is the most undervalued G10 currency



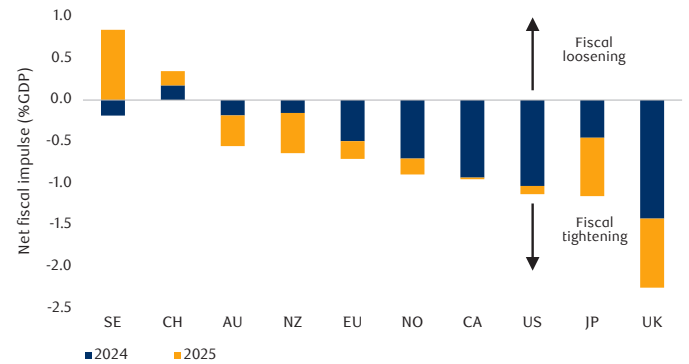
Note: As at May 30, 2024. Source: Bloomberg, RBC GAM



British pound

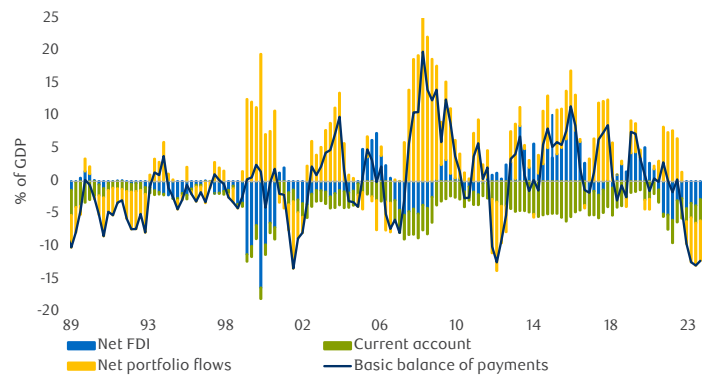
Several factors indicate that the pound should weaken relative to other developed-market currencies. First, economists seem to agree that the UK will be the slowest-growing major economy in 2024 and 2025. The roll-off of spending measures that are not being renewed amounts to a hit to growth of more than 2% of GDP, almost double that in other developed-market economies (Exhibit 12). UK inflation is also expected to be higher than peers' at the end of 2024, which is nothing new given that increases in UK price levels have been larger than the G10 average for decades. Greater inflationary pressure lessens the pound's attractiveness at a time when capital inflows are needed to help plug the country's balance-of-payments deficits. The UK's basic balance, which combines outflows in the current account, foreign direct investment and portfolio investment, sits at a staggering 10% of GDP (Exhibit 13). The pound needs to cheapen in order for the UK to attract capital, though such weakness needs to materialize relative to the currency of its biggest trade and investment partner, the eurozone, rather than against the greenback. We forecast the pound to trade at US\$1.31 within the next year.

Exhibit 12: UK faces largest fiscal headwind among developed-market peers



Note: As at March 2, 2024. Change in cyclically adjusted general government balance. Source: OECD, RBC Capital Markets, RBC GAM

Exhibit 13: UK balance of payment deficit



Note: As at December 31, 2023. 4 quarter rolling sum. Source: U.K. ONS, RBC GAM



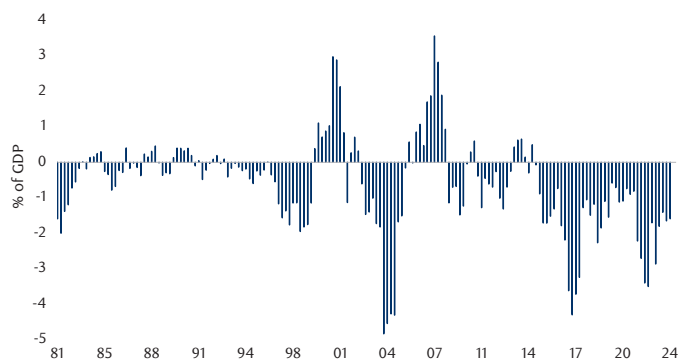
Canadian dollar

A negative tone has surrounded the Canadian dollar in recent months, reflecting three economic trends. The first involves Canada's greater economic sensitivity to elevated mortgage rates and expectations that household discretionary spending may be squeezed as Canadians renew their mortgages. The situation has prompted calls for the Bank of Canada (BOC) to reduce interest rates further in order to avoid a more pronounced economic slowdown. Given that relative shifts in monetary policy are such a dominant driver of foreign-exchange markets, a wider divergence in policy between the BOC and Fed could result in short-term weakness in the loonie.

The second issue is that the Canadian dollar has for now lost its link to oil and so isn't fluctuating alongside crude prices. The main channel for currency appreciation from a rally in energy prices is not solely through better terms of trade but to a greater extent through hiring and business spending that results from resource exploration and extraction. Concerns that carbon taxes will crimp demand and that Canada's oil-sands reserves are too "dirty" pose a threat to the domestic oil industry and have prompted many companies to opt for returning capital to shareholders instead of reinvesting in shovel-ready projects that drive Canadian economic growth.

The third major headwind relates to Canadian productivity, which suffers from low investment in key sectors that drive innovation. This topic has resurfaced in recent weeks following a proposed increase in the capital-gains tax that threatens to deter investment and chase away companies and entrepreneurs that create intellectual property. Policies that structurally dent the country's competitiveness may be one reason the currency has remained undervalued. For years, technology workers have fled to the U.S. and firms have found more attractive investment opportunities abroad (Exhibit 14). Adding to this outflow are small deficits in the current account and in cross-border portfolio investment leading to an overall basic balance deficit equal to 3% of GDP that frustrates any sustainable currency strength.

Exhibit 14: Persistent foreign direct investment outflows



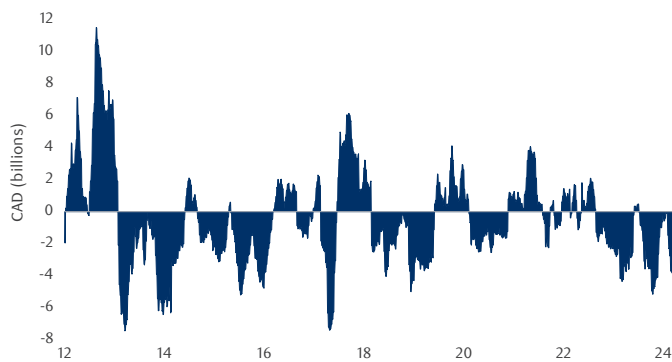
Note: As at March 31 2024. 4 quarter rolling sum. Source: Statistics Canada, RBC GAM

We should also remember that the Canadian dollar is 17% undervalued versus the U.S. dollar based on purchasing power parity and has a host of long-term positives on its side. Canada is well-endowed with natural resources, has a strong banking system, a well-educated workforce, and is on better fiscal footing than most of its peers.

In the shorter term, the Canadian currency has also been supported by this year's metals rally – which, unlike the oil industry, faces fewer tax and environmental deterrents to investment. Mostly, it is Canada's proximity to the U.S. and the tight trading relationship between the two countries that has distinguished the loonie. During periods of strong U.S. economic growth, Canadian growth generally outperforms most other developed-market economies, a scenario that often results in the currency outperforming those of Japan and Europe as the U.S. dollar declines.

In sum, we believe that offsetting tensions affecting the Canadian dollar augur a stable exchange rate, and the Canadian dollar has indeed stayed in a relatively tight trading range of C\$1.32 and C\$1.40 per U.S. dollar over the past 18 months. We expect the Canadian dollar to strengthen beyond the lower end of this range but acknowledge an outlook for the Canadian dollar that's moderately less bullish than before. We've tempered our view over the past few quarters and now expect the currency to hit C\$1.27 per U.S. dollar over the next 12 months. With investors leaning bearish toward the loonie (Exhibit 15) and additional BOC rate cuts already anticipated, we think the Canadian dollar is well placed to benefit from U.S.-dollar weakness.

Exhibit 15: Investor positioning bearish on the loonie



Note: As at May 31, 2024. Source: CFTC, Macrobond, RBC GAM





Regional outlook – United States



Brad Willock, CFA

Managing Director & Senior Portfolio Manager
RBC Global Asset Management Inc.

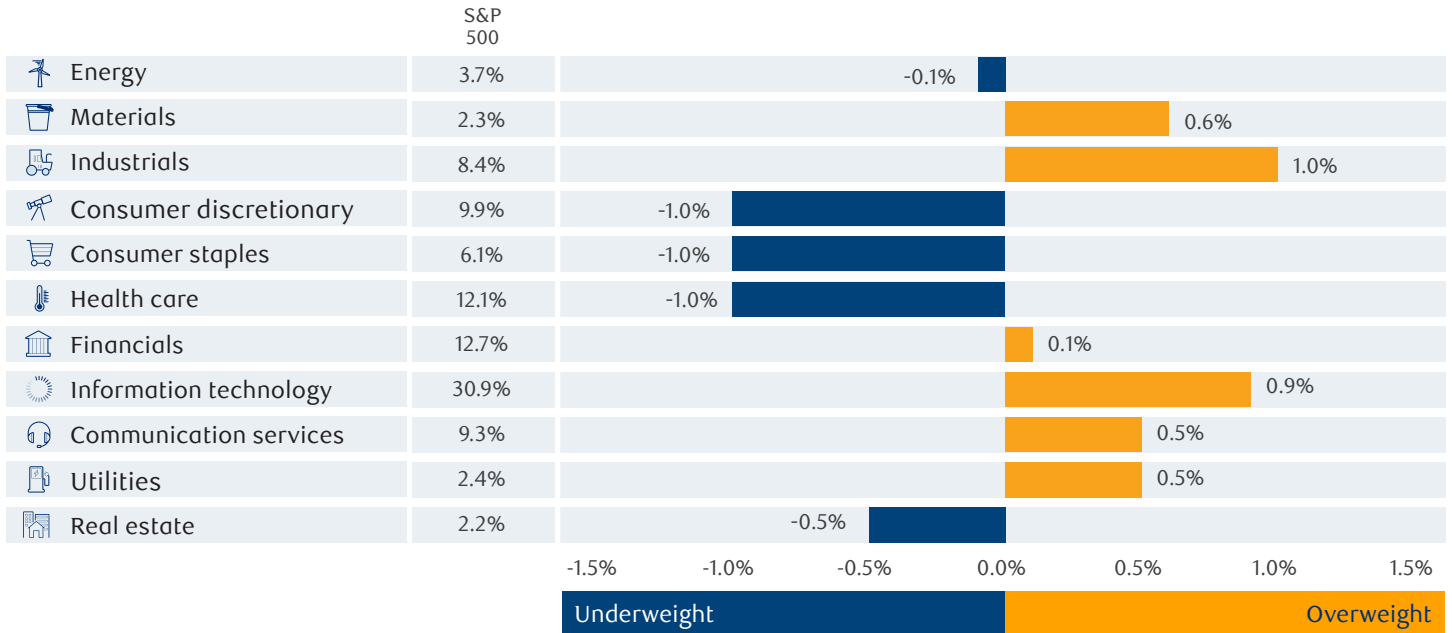
U.S. stocks, measured by the S&P 500 Index, returned 3.9% during the three months ended May 31, 2024, driven by better-than-expected earnings growth, continued excitement over artificial intelligence (AI) and a positive outlook for inflation. Five mega-cap AI stocks, Nvidia, Google, Amazon, Meta and Microsoft accounted for most of the period's returns, although banks, insurance, energy and utilities have started to chip in. The stock market's surge reflects the consensus view that the rate of inflation is likely to slow without significant disruption to the labour market, resulting in a soft landing. With the S&P 500 up 11.3% so far this year through May, it seems prudent to review recent earnings results, evaluate the further potential for AI investing and consider whether inflation will really come down as fast as many investors think.

Let's begin by looking at the most recent earnings results. In the first quarter, earnings-per-share growth for the S&P 500 came in at 7% year over year (10% excluding the volatile Energy sector) driven by revenue growth of 4%. These results were similar to those posted in the prior quarter and historically quite typical in that revenue growth often tracks the nominal growth rate of the economy and, thanks to operational leverage, earnings growth usually comes in a few percentage points higher. The profitability of 55% of the S&P 500's non-financial constituents improved as input costs eased and inventories fell to historical levels after a

pandemic-induced buying binge. Notably, the areas of the economy that are home to the AI-related mega-caps posted stunning results with an aggregate earnings gain of 33% on top-line growth of 8.5%. Consensus S&P 500 earnings estimates for all of 2024 imply earnings growth of roughly 10%, which seems reasonable given these results and a soft landing for the economy remains our base case.

Next let's turn to AI, where both investors and companies remain enthusiastic. The stocks of companies at the centre of the AI revolution have rallied significantly so far this year with Nvidia more than doubling, while Meta is up 32%, Google 24%, Amazon 19% and Microsoft 12%. These companies are the main beneficiaries of the AI infrastructure buildout. Nvidia supplies the semiconductors that the others use to build models and applications which they use to make their own businesses more efficient and to sell to their customers. Amazon, Microsoft and Google use their enormous cloud businesses to offer customers access to AI models and applications, while Meta uses AI to better target ads that users are exposed to on Instagram and Facebook. Meta also offers AI tools to its advertising clients so they can make better, more engaging ads for use on the company's platform. Each of these companies is expected to spend US\$5 billion to US\$10 billion per quarter over the next several years to integrate AI functionality into every part of their businesses. Clearly the big AI players are all-in, but the big question is:

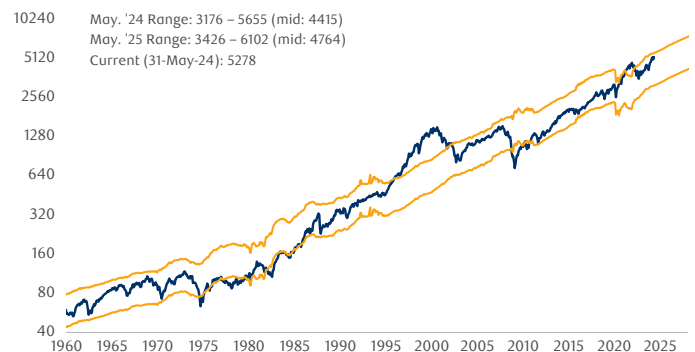
United States – Recommended sector weights



Note: As of May 31, 2024. Source: RBC GAM

“So far in 2024, the performance of the S&P 500 was driven by six of its largest members, which together now comprise almost 30% of the market capitalization of the index.”

S&P 500 Equilibrium Normalized earnings and valuations



Note: The 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

What will the ultimate return be following all this investment? Investors are typically skeptical of big spenders, but historically companies that have high margins and generate a lot of free cash flow receive the benefit of the doubt.

Finally, let's turn to the outlook for inflation. We believe that the rally in stocks has been supported by the belief that the rate of inflation will gradually decline back to the Fed's target of 2% over the next 18 months. In April, consumer prices excluding food and energy rose 3.6% year over year - still a long way from 2%. Looking closer, however, we see that there are two major outliers keeping inflation annoyingly high. While shelter costs rose 5.5% in April, growth in asking rents slowed to a low single-digit pace. Meanwhile, there are roughly 1 million new apartments under construction and the vacancy rate has been rising, which should pressure rent growth in the months ahead. The second outlier is the cost of auto insurance, which rose substantially during the pandemic as the accident rate and car-repair costs surged. In May, the average auto-insurance premium was up 23% year over year but has likely peaked given our belief that repair costs have peaked. In sum, we think the market has it right and that the

weight of the evidence supports an outlook for disinflation going forward.

As was the case last year and, to a lesser extent, so far in 2024, the performance of the S&P 500 was driven by six of its largest members, which together now comprise almost 30% of the market capitalization of the index. The group's collective market value has more than doubled since the beginning of 2023, when ChatGPT was launched. As a group, the stocks are relatively expensive, trading at about 29 times forward earnings, while the remaining 494 index constituents in the S&P 500 as a group have gained roughly 36% and trade at roughly 18 times earnings. When we put the pieces together, the backdrop favours allocating incremental capital to members of the S&P 500 other than the Big Six given the increased odds of a soft landing for the economy helped by gradual disinflation. Stable and defensive parts of the market have underperformed significantly over the past 18 months, and it is now prudent to consider increasing exposure to the Utilities and Consumer Staples sectors in case inflation remains stubbornly high and/or the economy slows down more than expected.



Regional outlook – Canada



Sarah Neilson, CFA
Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.



Irene Fernando, CFA
Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Canada's stock benchmark, the S&P TSX Composite Index, recorded total returns of 5.1% in the three months ended May 31, 2024. In U.S.-dollar terms, the S&P/TSX advanced 4.6%, beating the S&P 500 Index, which advanced 3.9%, and the MSCI World Index, which gained 3.8%. The S&P/TSX has underperformed, however, so far this year, returning 4.6% in U.S. dollars for the five months ended May versus gains of 11.3% and 9.5%, respectively, for the S&P 500 and the MSCI World.

Both the S&P 500 and the S&P/TSX reached record levels in May, and the TSX today sits just 0.9% below that level. The U.S. and Canadian markets have performed solidly this year supported by resilient economic data, an improved earnings outlook and indicators suggesting that inflation is moderating.

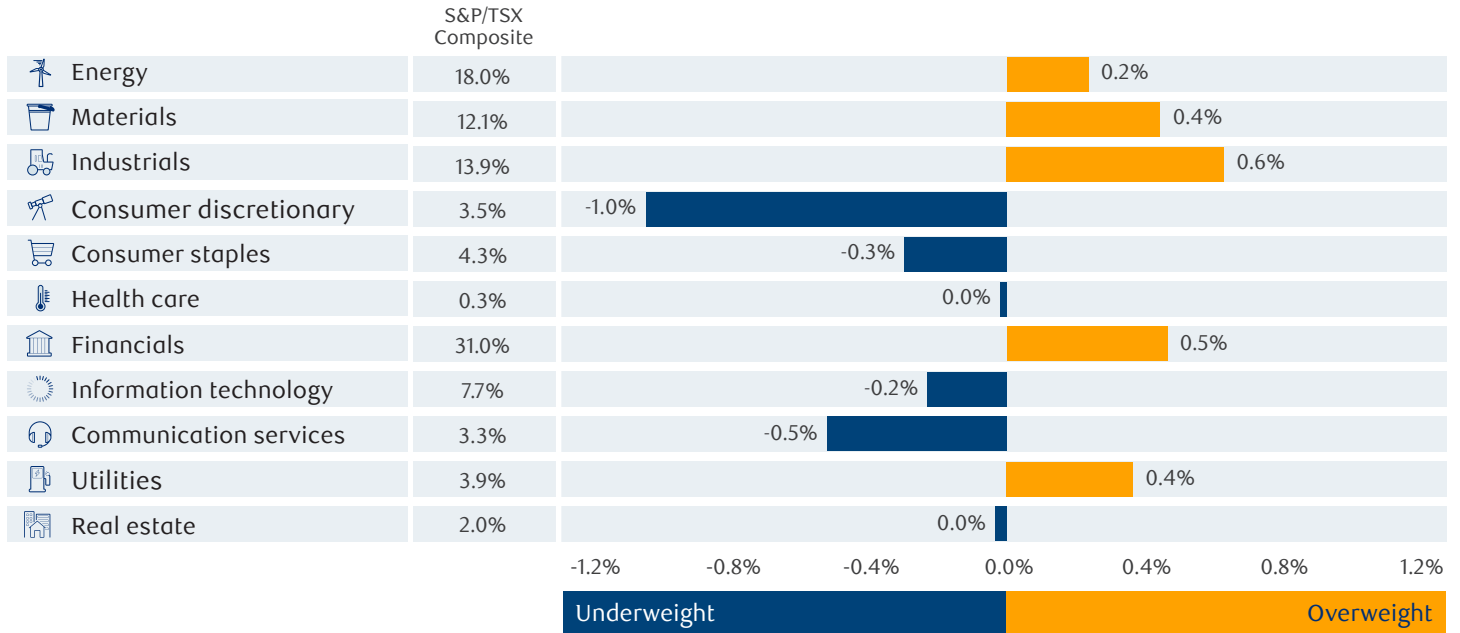
Investors have been looking for evidence of lower and stable inflation as well as subdued economic results to provide indications of the magnitude and pace of monetary-policy easing. Canada's inflation rate has eased, with the consumer price index slowing to 2.7% in April, albeit still above the Bank of Canada's (BOC) 2% target. Shelter costs, reflected in rising mortgage payments and rents, remain the biggest contributor to Canadian inflation. Food-price increases are slowing, especially in grocery, while energy prices are ticking higher reflecting higher gasoline prices. The unemployment rate in Canada has risen gradually, reaching 6.1% in April, and there

have been indications that wage pressures are moderating. In contrast, the U.S. unemployment rate is 4%. The BOC expects inflation to remain close to 3% for the first half of the year and then gradually fall to 2.5% later this year.

While Canada's economy accelerated at the start of 2024, economists expect it to slow for the remainder of the year as retail sales slow, manufacturing softens and home sales dwindle. Analysts are anticipating that Canada's economy will expand 1.0% in 2024, down from 1.1% growth in 2023. Early expectations are for a stronger economy in 2025, with GDP growth expected to recover to 1.8%. The BOC, however, increased its growth outlook and now expects Canada's economy to grow by 1.5% in 2024, up from 0.8%, pointing to rising consumer spending due to population growth as well as higher exports. In early June, the BOC lowered its benchmark interest rate by 25 basis points, the first change in almost a year and the first time the bank has dropped the rate since the early days of the pandemic.

Canada's stock market was led by its resource sectors, Energy and Materials, which together make up 30% of the index. The Energy sector, Canada's second biggest, benefited from rising crude-oil prices and optimism about new pipeline capacity and growing demand for Canada's oil and natural gas. Energy-company earnings and free cash flows are growing, supporting shareholder returns and improved valuations. The Materials sector's performance was boosted

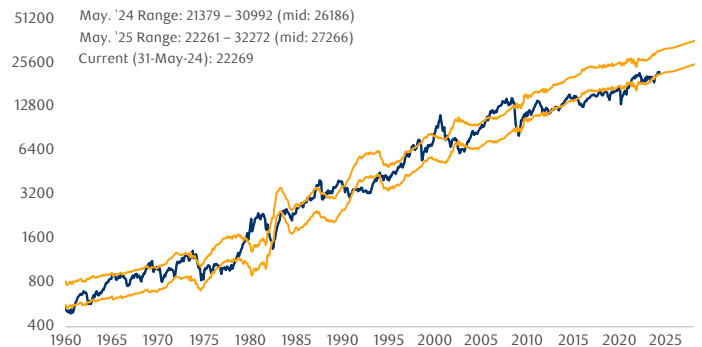
Canada – Recommended sector weights



Note: As of May 31, 2024. Source: RBC GAM

“S&P/TSX consensus earnings estimates have been falling for 18 months, reflecting a moderation in commodity prices and muted growth in bank earnings.”

S&P/TSX Composite Equilibrium Normalized earnings and valuations



Note: The 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

by commodity prices as well. Gold prices surged as high as US\$2,425 per ounce in May, before settling at about US\$2,355 at the end of the month. Gold producers' equity performance has mirrored the commodity price move as the stocks begin to reflect improved operations and cost controls leading to stronger margins in the latter half of the year. Copper prices reached a two-year high as improving economic growth supported the outlook for the metal. The Financials sector has lagged the S&P/TSX mainly due to weak bank stocks, offset somewhat by returns for insurer issues. The Utilities and Real Estate sectors, as well as telecommunications companies, have been a drag on returns this year, as long-term interest rates moved higher.

Important to the profitability of the S&P/TSX's biggest area, banking, is the condition of the housing market. Higher interest rates have increased mortgage rates, significantly reducing housing affordability. Home prices appear to be stabilizing, and central-bank rate cuts could lead to lower mortgage rates and improve affordability.

S&P/TSX consensus earnings estimates have been falling for 18 months, reflecting a moderation in commodity prices and muted growth in bank earnings. Current consensus estimates are for S&P/TSX earnings to grow by 6% in 2024 and by another 13% in 2025, driven by higher profits in energy, materials and financials. The estimates are not factoring in the possibility of an economic slowdown, which would likely hurt sectors exposed to the pace of economic growth. The S&P/TSX currently trades at 14.7 times forward earnings, in line with its 14.5 long-term average. The S&P/TSX remains at a significant discount to the S&P 500, which is valued at 20.8 times forward earnings.

Canadian bank stocks have returned 3.1% so far this year, underperforming the S&P/TSX by 4.5 percentage points. Concerns about a slowing economy and its impact on credit quality have been the main issues for the group. Higher rates decreased demand for loans, but the pressure on costs to fund loans has been diminishing. The outlook for net interest margins, the key metric that drives banks' top-line growth, has been steady and has helped offset slower growth in loan assets. Banks' efforts to cut expenses has also aided their earnings.

We have seen a divergence in credit trends among banks in recently released quarterly results. Some banks have seen their loan books deteriorate more than expected while others are experiencing less stress in their loan portfolios. Most bank managements are telling investors that they should count on increased losses on loan books for the rest of the year.

Analysts see flat earnings for the fiscal year ending October 2024, followed by 6.5% growth next year. Some analysts are even starting to tentatively raise their earnings estimates, a positive sign in our view. As we move into 2025, one can picture a scenario in which BOC rate cuts spur demand for loans and ease concerns about credit quality. Such a scenario is likely to boost PE ratios from the current 10.7.



Regional outlook – Europe



David Lambert

Managing Director & Senior Portfolio Manager,
Head of European Equities
RBC Global Asset Management (UK) Limited

European equities have started 2024 as one of the stronger regions in the context of broadly robust global markets. Performance has been led by pro-cyclical stocks, and the large-cap index has led the way.

Earnings growth remains muted, but we still expect profits to rise 5% this year, excluding commodities. The run-up in European equity markets since October 2023 has been due to an increase in valuations, as a 17% increase in the market has been matched by a mere 3% rise in expected earnings over the next 12 months. The increase in valuations is similar to what we have seen in major markets with the exception of Japan and China. However, European valuations remain low by historical standards, in contrast to the U.S.

Higher P/E ratios are, for the most part, being driven by hopes of aggressive interest-rate cuts by central banks, coupled with diminishing expectations of a significant economic downturn over the coming year. A big difference in the macroeconomic backdrop between the U.S. and Europe is that inflation has come down more in Europe, putting the European Central Bank (ECB) and the Bank of England (BOE) in a position to drop rates earlier and faster than the U.S. Federal Reserve. This development should be, on balance, more positive for European equities, and especially for companies with steadily rising earnings and strong balance sheets.

Another positive for European stocks is gradual improvement in leading indicators. Flash PMIs, a measure of business

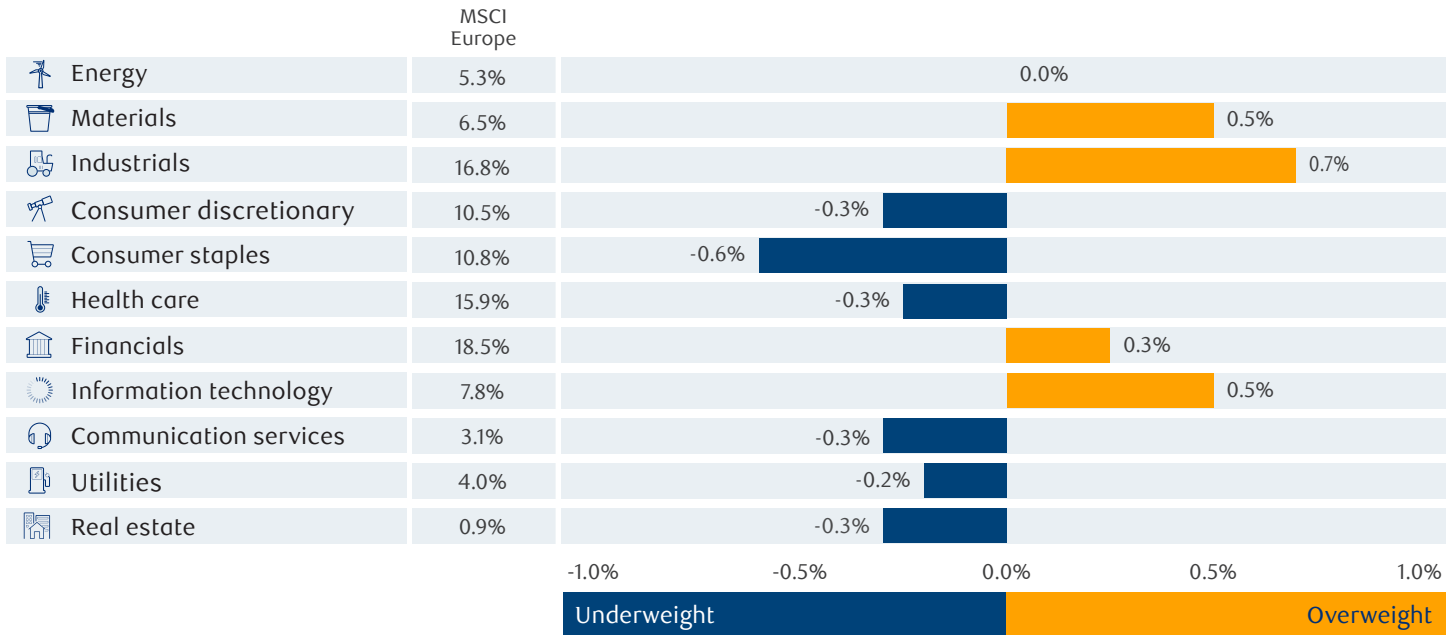
confidence, ticked up in April to 51.4, the highest level in a year and indicative of an expansion. The gain was bigger than investors' expectations, driven by more robust growth in services. An early look at the quarter-over-quarter pace of growth expected in the second quarter would suggest an expansion running at 0.2%. While the pace is clearly not electrifying, it is nonetheless consistent with ECB expectations of a gradual recovery in growth over the course of the year.

Money-supply growth, a generally reliable indicator of GDP growth and earnings, is rising, and this bodes well for earnings growth. Ultimately, low valuations, improving leading indicators and the prospect of relatively loose monetary policy are setting up a positive backdrop for European equities.

The role of buybacks

One thing we have noticed in 2024 is that the number of share-buyback announcements is up notably, led by companies in the Financials sector. But the Energy sector and cyclical areas such as Consumer Discretionary and Industrials have also been announcing repurchases. Our assumption is that the enthusiasm for buybacks is a sign of growing corporate confidence about prospects for earnings and of balance-sheet strength. Moreover, companies are buying back a lot more stock than they are issuing: The overall share count is falling at the fastest pace in 20 years. This imbalance is obviously supportive for equities.

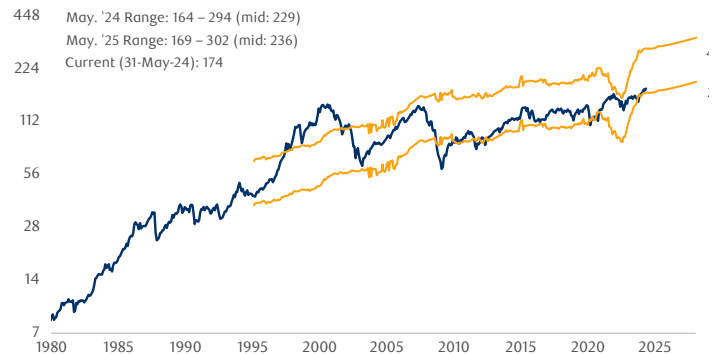
Europe – Recommended sector weights



Note: As of May 31, 2024. Source: RBC GAM

“In Europe, shareholder returns have historically depended largely on dividends, but buybacks are gaining in popularity.”

MSCI Europe Index Equilibrium Normalized earnings and valuations



Note: The 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

Historically, the U.S. stock market has been the biggest beneficiary of buybacks, especially since the 2008 financial crisis. In Europe, shareholder returns have always depended largely on dividends, but buybacks are gaining in popularity. In fact, Europe's buyback yield has caught up and passed that of the U.S. The pick-up in buybacks, coupled with vastly superior dividend yields, gives a total shareholder return of nearly 6%, and we estimate that buybacks could add 2.5 percentage points to EPS growth across the region this year.

Companies executing the biggest buybacks typically trade at discount valuations. Recently, however, we have seen that investors are assigning slightly higher valuations to such companies. Cash on corporate balance sheets is near record highs and financial leverage is low, so there is plenty of firepower to maintain these returns.

We know that the long-term compounding effect of buybacks is powerful in a way that is similar to reinvested dividends, so it is not too early to speculate about whether this change could narrow the gap in total shareholder returns versus the U.S. over the next 20 years.

Going forward...and positioning

We also wonder whether the shift in European equities away from mature industries such as telecommunications and banks will lead to higher valuations for some sectors in Europe. The pandemic and increase in armed conflicts around the world exposed supply-side vulnerabilities, and capital expenditures focused on security in energy, food, infrastructure and defense could justify higher exposure to the Industrials, Materials and Energy sectors.

We have been recently adding to holdings in the attractive areas of the Energy and Financials sectors, giving us greater exposure to value stocks. These positions have been funded by reducing exposure to the consumer sectors, and Consumer Staples in particular. We have a dearth of exposure to the Utilities or Communication Services sectors. However, the Utilities sector could become more attractive as valuations are low, and as climate change and skyrocketing demand

for electricity force power companies to step up the use of cleaner-burning fuels such as natural gas and boost development of renewables.

Expectations are for muted earnings growth through the rest of this year at around 3% (5% excluding Energy), and then for 10% earnings growth in both 2025 and 2026.





Regional outlook – Asia



Chris Lai

Portfolio Manager
RBC Global Asset Management (Asia) Limited

Asian equities gained over the three-month period, slightly outperforming most other major markets in local currency but underperforming in U.S.-dollar terms. Notable outperformers in the region included China and Taiwan, while Thailand, Indonesia and Australia underperformed. China's stock market attracted investors amid attractive valuations, improving macroeconomic indicators and a shift to pro-growth government policies. Taiwan was buoyed by large-cap information technology companies such as Hon Hai Precision and Taiwan Semiconductor on exposure to advances in artificial intelligence (AI). Australia underperformed due to the poor performance of the Health Care sector and iron- and steel-related mining companies hurt by weak demand from China's construction industry. Private consumption continues to be disappointing in Indonesia, where high personal-debt levels are an issue, and Thailand, where a rebound in tourism has been insufficient to offset falling car sales. Among sectors, Information Technology and Communication Services outperformed, while Consumer Staples and Health Care were laggards.

Japan

Japan recently raised interest rates for the first time in 17 years, marking a historic shift away from the aggressive monetary easing implemented to fight chronic deflation. The decision, made in March, ended a policy that had maintained interest rates below zero, as the Bank of Japan (BOJ) lifted

its short-term rate to “around zero to 0.1%” from minus 0.1%. At these levels, however, central-bank policy remains accommodative.

We expect BOJ rate hikes totaling 10 basis points by October. A BOJ rate hike is possible next month given rising wages, as long as the global economy remains healthy. Complicating the BOJ's decision-making is a weak yen, which at 157 is at its lowest levels in almost 35 years. A depreciating currency is inflationary given that Japan is an energy importer.

The consensus 2024 forecast for consumer inflation excluding fresh food (core inflation) has risen to 2.7% from 2.2% on expectations that the government will end subsidies that had held down prices for electricity. Monthly core inflation is forecast to climb to 3% this summer, and then slow to 2% by the second half of next year.

GDP growth forecasts for 2024 remains unchanged at 0.5%. We continue to expect consumption to recover later this year as the trajectory for both wage growth and inflation shift up. The economy should also get a boost from strong capital expenditures, which are focused on digitalization, decarbonization and robotics. We expect wage growth adjusted for inflation to turn positive in the second half of this year, supporting consumption.

Rest of Asia

The Chinese economy had a solid start to 2024. GDP growth hit 5.3% in the first quarter, up from the year-earlier period and beating expectations. Moreover, April indicators were healthy. The gains came mainly from a push for investment, which gained momentum in both manufacturing and infrastructure on government spending. Consumption continued to be the weak link. Sales in consumer services and vehicles slowed, while the picture for property was mixed. Sales of home décor and household appliances improved, while furniture softened. While recent strengthening in global purchasing managers' indexes have pointed to potential improvements in global demand, we are mindful of the risk presented by U.S. protectionism and are maintaining our 2024 growth forecast at 5.2%.

The Chinese government announced measures in May to stabilize the crisis-hit real estate industry, aiming to clear inventory and boost homebuyer demand. The package includes cutting down-payment requirements and removing the floor for mortgage rates in an effort to entice buyers. Further measures include giving local governments the power to force state-owned firms to purchase unsold apartments and convert them to social housing. China's central bank is setting up a property-lending facility that could result in as much as 500 billion yuan (US\$69 billion) of commercial-bank financing – equivalent to 0.4 per cent of the country's GDP. We expect the renminbi to remain weak at the 7.25 per U.S. dollar level given Chinese central-bank easing and a focus on exports.

A surprising election result unfolded in India, where the business-friendly prime minister, Narendra Modi, lost his parliamentary majority. Our assessment is that India's economic outlook remains robust, with administrative reforms having generally survived political fire. However,

a coalition government will make it much harder to push through large infrastructure projects, and more attention will have to be paid to vested interests before federal initiatives can be enacted.

The Indian economy is forecast to expand 7% this year, ranking India among Asia's fastest growing. Urban consumption, investment and exports have been resilient. The only areas of concern are weak consumption in rural areas and an expected slowdown in government spending. Indian inflation is relatively benign as oil companies have lowered gas and petrol prices. We expect inflation of 4.6% in the second quarter and expect it to trend lower to 4.5% in 2024. Strong growth and relatively low inflation should enable the Reserve Bank of India to begin lowering interest rates in September from the current 6.50%.

In Australia, growth forecasts for 2024 have been lowered to 1.2% due to falling household spending including a decline in home renovations. Consumption could pick up in the second half given a resilient labour market, with the unemployment rate now back down to 3.7%. Inflation is forecast at 3.3% for 2024, as goods prices come down. However, prices for services continue to rise and could climb more if households start spending more following personal income-tax cuts that take effect July 1. Investors are pricing in one rate cut in November.

In South Korea, GDP is forecast to climb 2.2% this year, up from 1.4% in 2023, led by strong semiconductor sales. A two-speed economy split between strong manufacturing and trade and weak domestic demand will likely continue. We expect inflation to fall to 2.6% in 2024 from 3.6% in 2023. Inflation is likely to fall to between 2.0% and 2.5% by the late summer, opening up scope for central-bank rate cuts.



Regional outlook – Emerging markets



Laurence Bensafi

Managing Director & Portfolio Manager,
Deputy Head of Emerging Market Equities
RBC Global Asset Management (UK) Limited

Emerging-market equities have started to outperform developed markets in a reversal from the trend of the past few years, catalyzed by an early 2024 rebound in Chinese equities. Since China's stock market touched a multi-year low on January 22, the MSCI Emerging Markets Index has returned about 10% in U.S. dollars, compared with a 9% gain for the MSCI World Index.

It is likely that emerging-market equities will continue to narrow the gap with developed markets in the coming months as emerging-market economies and earnings improve, especially since huge valuation differences exist between the two. At the end of 2023, the return on equity (ROE) in developed markets, as represented by the MSCI World, was 16.0%, the highest ever versus emerging markets, whose ROE stood at 11.3%. The large difference is due in part to emerging markets' lower exposure to technology and a slower economic recovery from the pandemic as government stimulus in emerging markets was more limited. We foresee a rebound this year in emerging-market ROEs, while ROEs in developed markets should not change much.

Discounted valuations are also seen on a price-to-book basis (PB), where emerging markets trade at the highest discount ever – 50% – versus developed markets. The average discount over the past 25 years has been 30%. India was the most expensive emerging market at the end of 2023, and valuations measured based on PB were at their highest levels since 2007, just before the financial crisis. India's stock

benchmark has added another 9.5% so far in 2024, triggering questions about near-term performance. It seems clear that there is some froth in the small- and mid-cap areas of the market, prompting India's stock-market regulator in February to request that local mutual funds address ways to better protect investors.

India's business-friendly prime minister, Narendra Modi, recently lost his parliamentary majority in elections that reflected what some political analysts said was disgruntlement among the poor over job losses and inflation. His political party, the BJP, should in our view be able to continue pursuing its policy goals, but will now have trouble enacting proposals that ease land transfers and encourage large-scale farming.

There is no doubt about India's impressive development under Modi, who since winning power in 2014 has focused on the country's woeful infrastructure and made it much easier to do business. But it is also clear that India faces many challenges in the coming years. Education remains a concern, with half the population quitting school at the age of 10, while female make up less than 30% of the workforce – one of the lowest rates in the world. Faster job creation will be needed to absorb the growing population and boost economic growth above the levels of the past decade. In this environment, investors should focus on areas of the market where valuations are not stretched.

China's economy, in contrast to India's, has been weak since 2020. That was the year that China started to stress the quality of its economic expansion via productivity and domestic demand, rather than simply the pace of growth. While this change is necessary to ensure that growth is accompanied by sustainably rising incomes, policymaking has so far been mostly ineffective in restoring investor confidence. The severity of the government's two-year-old regulatory crackdown on many parts of the economy caught many investors by surprise, and there is now concern that high debt levels and a shrinking population could lead to deflation. The result is that valuations of Chinese equities at the end of January of this year fell to their lowest since the 2008-2009 financial crisis.

Since the start of the year, Chinese stock valuations have fallen mainly in fast-growing technology-related issues and private companies, while state-owned enterprises and more cyclical areas have done better. These trends were largely reflected in foreign investors selling widely held, quality stocks and a delayed recovery in consumption. So far in 2024, however, concerns about China's big-picture challenges have taken a back seat to investors wanting exposure to a market that may be undervalued from a long-term perspective.

Indeed, the MSCI China Index has outperformed the emerging-market index by 9.6 percentage points and the MSCI India Index by 9 percentage points since January 22 of this year as the government increased support for the economy and the Real Estate sector. The rally could well continue if China's central bank eases policy at a time when inflation-adjusted interest rates are relatively high. One key positive is that the savings rate is down amid a modest recovery in consumption and consumer confidence.

Beyond China and India, investors can expect the run-up to November's U.S. presidential election to result in financial-market volatility. A notable risk is the imposition of tariffs and other trade restrictions in areas where China has been ramping up exports, regardless of whether Biden or Trump wins the election. The longer-term direction remains a more polarized world, with trading blocs increasingly dictated by geopolitics.

In conclusion, it is important to remember that it's emerging-market countries that are driving global GDP growth. While China's growth rate is declining, investors expect the country to remain the main contributor to global GDP growth in the coming years as it accounts for 30% of emerging-market economic growth. India's economy is now expanding faster than China's, but China's economy is about 4.5 times bigger.

RBC GAM Investment Strategy Committee

Members



Daniel E. Chornous, CFA

Chief Investment Officer
RBC Global Asset Management Inc.
Chair, RBC GAM Investment Strategy Committee

Dan Chornous is Chief Investment Officer of RBC Global Asset Management Inc. (RBC GAM), the Royal Bank of Canada's wholly-owned investment management subsidiary. The firm manages assets nearing (CAD) \$639.8 billion for institutional, high net worth and individual investors in fixed income, equity and alternative mandates in Canada and around the world. Since joining RBC GAM in November 2002, Dan has been responsible for the overall direction of investment policy and asset management across the firm's global investment platform. Prior to that, Dan was Managing Director, Capital Markets Research and Chief Strategist at RBC Capital Markets.

Dan joined the RBC Global Asset Management board immediately upon his arrival at the firm. In December 2010, Dan joined the board of BlueBay Asset Management following its merger with RBC GAM. He also sits on the board of RBC Global Asset Management (UK) Ltd., is a member of the RBC Pension Investment Strategy Committee and chairs the RBC GAM Investment Strategy Committee (RISC) among others. For many years, Dan has been active in the Canadian investment community. He served on the board of the Canadian Coalition for Good Governance from 2008 to 2020 and as its chair from 2012 to 2016. In addition, he is a member of CFA Society Toronto Advisory Council, a past member of the Toronto United Way major giving cabinet, a former Director of the Toronto Society of Financial Analysts and of the Winnipeg Society of Financial Analysts.

Dan is a graduate of the University of Manitoba (B. Comm, Honours, 1980) and is a member of The Associates, Asper School of Business. In 1985, Dan was awarded the Chartered Financial Analyst designation.

*AUM in CAD as of May 31, 2024



Soo Boo Cheah, MBA, CFA

Managing Director &
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

Based in the U.K., Soo Boo is responsible for managing global fixed-income allocations. He specializes in assessing the impact of central bank policies and global macroeconomic trends on developed-market bonds. In his role as a senior portfolio manager, he integrates a wide range of investment strategies involving interest rates, currencies, and derivatives. Soo Boo started his career in the investment industry in 2000 and holds an MBA from University of New Brunswick. Soo Boo has been a CFA charterholder since 2002.



Dagmara Fijalkowski, MBA, CFA

Managing Director &
Head of Global Fixed Income & Currencies
RBC Global Asset Management Inc.

As Head of Global Fixed Income and Currencies, Dagmara leads a team of 40+ investment professionals in Toronto, London and Minneapolis with almost \$100 billion in assets under management. In her duties as a portfolio manager, Dagmara leads management of several bond funds, including the RBC Bond Fund, and manages foreign-exchange hedging and active overlay programs. She leads the Fixed Income Strategy Committee, which determines appropriate levels of risk taking given market opportunities. Dagmara is a member of the RBC Investment Policy Committee, which determines the asset mix for balanced products; and the RBC Investment Strategy Committee. In 2016, she was appointed to the RBC GAM Executive Committee. Dagmara, who began her investment career in 1994, holds an MBA from the Richard Ivey School of Business at the Western University in Canada and a Master's degree in economics from the University of Lodz in Poland. Dagmara has been a CFA charterholder since 1997.


Stuart Kedwell, CFA

Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Stu co-leads the North American Equity team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities in the firm's Generalist program, a two-year internship in which participants rotate through different areas of the firm. In 1998, he joined the RBC Investments Portfolio Advisory Group, which provides investment ideas and recommendations to RBC DS Investment Advisors. He was also a member of the RBC DS strategy & focus list committees. Stu has been with the firm since 2002 and is a CFA charterholder.


Eric Lascelles

Managing Director &
Chief Economist
RBC Global Asset Management Inc.

Eric is the Chief Economist for RBC Global Asset Management Inc. (RBC GAM) and is responsible for maintaining the firm's global economic forecast and generating macroeconomic research. He is also a member of the RBC GAM Investment Strategy Committee, the group responsible for the firm's global asset-mix recommendations. Eric is a frequent media commentator and makes regular presentations both within and outside RBC GAM. Prior to joining RBC GAM in 2011, Eric led a team of economists and fixed income strategists at another large Canadian financial institution. He began his career as a research economist for a federal government agency.


Scott Lysakowski, CFA

Managing Director & Senior Portfolio Manager
Head of Canadian Equities (Vancouver)
RBC Global Asset Management Inc.

Scott is Head of the Vancouver-based Canadian Equity Team. He is primarily responsible for overseeing equity research and portfolio management of the firm's core Canadian equity strategies. Scott also serves as lead manager for the Canadian income strategies. Scott began his investment management career with the firm in 2002 as a senior research analyst and portfolio manager within the Toronto-based Canadian Equity Team. He transitioned to the Vancouver team seven years later and assumed his current leadership role in 2012. During his tenure with the organization, he has conducted research for and managed a broad spectrum of Canadian equity portfolios, specializing in dividend and income mandates.


Hanif Mamdani

Managing Director &
Head of Alternative Investments
RBC Global Asset Management Inc.

Hanif Mamdani is Head of both Corporate Bond Investments and Alternative Investments. He is responsible for the portfolio strategy and trading execution of all investment-grade and high-yield corporate bonds. Hanif is Lead Manager of the PH&N High Yield Bond and Alternative strategies, including a multi-strategy hedge fund. He is also a member of the Asset Mix Committee. Prior to joining the firm in 1998, he spent 10 years in New York with two global investment banks working in a variety of roles in Corporate Finance, Capital Markets and Proprietary Trading. Hanif holds a master's degree from Harvard University and a bachelor's degree from the California Institute of Technology.


Bryan Mascoe, CFA

Managing Director & Senior Portfolio Manager
Co-head, Fixed Income (Vancouver)
RBC Global Asset Management Inc.

Bryan is co-Head and a senior portfolio manager on the PH&N Fixed Income Team. He co-manages the investment-grade credit research effort. As part of this role, he manages our dedicated corporate bond portfolios and is responsible for performing credit analysis on investment-grade issuers. He also assists with the strategy and trade execution of corporate bonds held in broader short, universe, and long fixed-income mandates. Bryan has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2005.


Sarah Riopelle, CFA

Managing Director & Senior Portfolio Manager
Investment Solutions
RBC Global Asset Management Inc.

Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions which totals \$180 billion in assets. She is a member of the RBC GAM Investment Strategy Committee, which sets global strategy for the firm, and the RBC GAM Investment Policy Committee, which is responsible for the investment strategy and tactical asset allocation for RBC Funds' balanced products and portfolio solutions. In addition to her fund management role, she works closely with the firm's Chief Investment Officer, ensuring that all aspects of the investment management function at RBC GAM are running smoothly. She is co-chair of the RBC Wealth Management Diversity Leadership Committee – Canada, as well as a member of the Dean's Advisory Board for both the Telfer School of Management at the University of Ottawa and the Faculty of Management at Laurentian University.

Sarah joined RBC Global Asset Management in 2003 and held roles in Investment Strategy and Canadian Equities before assuming her current responsibilities in 2009. Prior to joining RBC GAM, Sarah worked at RBC Capital Markets in both the Quantitative Research and Investment Strategy groups. She began her career in the investment industry in 1996 after graduating from the University of Ottawa with a Bachelor of Commerce degree, majoring in Finance and International Management. She was awarded the Chartered Financial Analyst designation in 2001.


Martin Paleczny, CFA

Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Martin Paleczny, who has been in the investment industry since 1994, began his career at Royal Bank Investment Management, where he developed an expertise in derivatives management and created a policy and process for the products. He also specializes in technical analysis and uses this background to implement derivatives and hedging strategies for equity, fixed-income, currency and commodity-related funds. Since becoming a portfolio manager, Martin has focused on global allocation strategies for the full range of assets, with an emphasis on using futures, forwards and options. He serves as advisor for technical analysis to the RBC GAM Investment Strategy Committee.


Kristian Sawkins, CFA

Managing Director & Senior Portfolio Manager
Co-head, Fixed Income (Vancouver)
RBC Global Asset Management Inc.

Kristian is co-Head and a senior portfolio manager on the PH&N Fixed Income team, specializing in universe and short-term bond mandates. He is also a member of the PH&N IM Asset Mix Committee. Kristian joined Phillips, Hager & North Investment Management in 2002 as an associate analyst with the Canadian Equities Team and moved to the Fixed Income Team in 2005. Prior to joining the organization, Kristian spent three years at a major investment bank in New York across a few different roles. Kristian has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2002.


Jaco Van der Walt, DCom

Managing Director & Global Head of
Quantitative Research & Investments
RBC Global Asset Management Inc.

As Head of Quantitative Investments, Jaco leads an experienced team that is driven to continually innovate across all its capabilities, including research, portfolio management, data and systems to leverage the combination of human and machine in investment decision-making. He previously held an executive role at one of South Africa's largest financial services companies, leading the Investment Management Office, with experience spanning pensions, insurance, banking and wealth management. As asset owner, he also chaired the boards and investment committees of several of the company's pension plans, promoting investment excellence and driving transformational change to ensure members reach their retirement goals. Jaco began his investment career in 1996 and holds a Master's degree in Economics from the University of Toronto and a Doctorate from the University of Pretoria.


Milos Vukovic, CFA

Managing Director &
Head of Investment Policy
RBC Global Asset Management Inc.

Milos, who joined RBC in 2003, oversees investment-management activities including new-fund launches, performance analytics and trade-cost analysis. He is also responsible for developing and monitoring investment mandates and implementing tactical asset allocation for the RBC GAM investment solutions. Milos earlier worked for a Big 4 accounting firm and two top-tier securities firms. He earned an MBA at the Schulich School of Business and has held the CFA designation since 2004.


Brad Willock, CFA

Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Brad Willock joined RBC Global Asset Management in July 2002 and is a Senior Portfolio Manager and CFA charterholder. In his current role, Brad has responsibility for RBC Global Asset Management's core and income-oriented U.S. equity strategies. He joined RBC in May 1996 after receiving a bachelor's of commerce degree with distinction from the University of Calgary. Prior to that, Brad obtained a bachelor's of science degree at the University of British Columbia and represented Canada at the 1992 Barcelona Summer Olympics in volleyball.

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