



Capital markets performance

Milos Vukovic, MBA, CFA – V.P. & Head of Investment Policy
RBC Global Asset Management Inc.

The U.S. dollar weakened against all four key currencies in the quarter ended February 28, 2019, marking a reversal after the greenback strengthened last year against most currencies. The U.S. Federal Reserve's (Fed) decision to delay further interest-rate hikes and mounting evidence of a slowing U.S. economy were likely instrumental in turning back the trend. The pound's 3.9 percent gain versus the U.S. dollar was the most of the major currencies, with sterling perhaps benefiting from optimism that the worst-case scenario of a no-deal Brexit will be avoided. Conversely, Italy's fall into recession and weakness in many other European economies weighed on the single currency, which eked out a 0.5 percent gain versus the greenback. The yen rose 1.8 percent versus the U.S. dollar and the Canadian dollar posted a 1.0 percent increase. Even with the most recent quarter's weakness, the U.S. dollar managed to rise against all major currencies over the last year. The U.S. dollar gained the most against the euro over the one-year period, appreciating by 7.3 percent.

Most fixed-income markets registered gains in the latest three-month period in U.S. dollar terms, in contrast to the broad declines experienced in the prior quarter. With many central banks unlikely to raise rates in the near term, yields fell materially in key markets from levels at the end of November. The yield on the 10-year U.S. Treasury bond finished the period at 2.72 percent, down from 2.99 percent a quarter ago. Also supporting bond returns was the retreat of credit spreads, which retraced 75 percent of their prior widening from last year. Major global fixed-income benchmarks that we track recorded gains of between 2.8 percent for the FTSE European Government Bond Index and 3.9 percent for the FTSE Canada Universe Bond Index, in U.S.-dollar terms.

Equity markets experienced substantial volatility this past quarter as the S&P 500 Index plunged as much as 15 percent in December and then more than recouped those losses with gains of almost 20 percent to finish the period with a gain of 1.4 percent. The precipitous decline in equity markets in December coincided with extreme levels of investor pessimism, which was likely due to anxiety about Fed interest-rate hikes and another round of tariffs that U.S. and China threatened to levy on each other. The subsequent dovish statements from the Fed and Trump's newfound will to strike a trade deal with China led to a restoration of

investor confidence and the stock-market recovery in early 2019. By the end of the three-month period, the S&P/TSX Composite had soared 7.1 percent, and foreign indexes like the MSCI Emerging Markets Index and MSCI EAFE Index rose 6.1 percent and 4.0 percent, respectively, all in U.S. dollar terms. The MSCI Japan Index lost 1.0 percent over the same period and was the only major stock market to record a loss, as Japanese stocks were hurt by weak economic data and deteriorating fundamentals.

The U.S. mid-cap S&P 400 Index, which climbed 2.1 percent in the last three months, narrowly outperformed the small-cap S&P 600 Index at 1.5 percent and the large-cap S&P 500 Index at 1.4 percent, but remains behind its counterparts over the year. Growth stocks continued to outpace value stocks over the quarter as the Russell 3000 Growth Index advanced 3.3 percent, versus a 0.6 percent increase for the Russell 3000 Value Index. All sectors except Health Care were up for the quarter with Materials, Information Technology, Utilities, Industrials and Real Estate all recording returns of 5 percent or more. The outperformance of Materials, Industrials and Information Technology is noteworthy because these sectors suffered the most during the market swoon at the end of last year. Still, Materials and Industrials remained among the worst performing sectors over the one-year period.

For more on our current view and outlook, please consult the full version of *The Global Investment Outlook* posted on our website at <http://www.rbcgam.com/gio>.

This has been provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC Global Asset Management Inc. (RBC GAM Inc.). In Canada, this report is provided by RBC GAM Inc. (including Phillips, Hager & North Investment Management). In the United States, this report is provided by RBC Global Asset Management (U.S.) Inc., a federally registered investment adviser. In Europe, this report is provided by RBC Global Asset Management (UK) Limited, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC Investment Management (Asia) Limited, to professional, institutional investors and wholesale clients only and not to the retail public. RBC Investment Management (Asia) Limited is registered with the Securities and Futures Commission (SFC) in Hong Kong. Any funds/ strategies referenced in this document are not registered in, nor may be sold, issued or offered in Hong Kong, China, Singapore, Korea or Taiwan and this document does not contemplate the marketing, offer, issue or sale of any funds/ strategies in these jurisdictions.

RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC GAM Inc., RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited, RBC Investment Management (Asia) Limited, and BlueBay Asset Management LLP, which are separate, but affiliated subsidiaries of RBC.

This report has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the above-listed entities in their respective jurisdictions. Additional information about RBC GAM may be found at www.rbcgam.com.

It is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when printed. Due to the possibility of human and mechanical error as well as other factors, including but not limited to technical or other inaccuracies or typographical errors or omissions, RBC GAM is not responsible for any errors or omissions contained herein. All opinions contained within constitute our judgement as of March 15, 2019, are subject to change without notice, and are provided in good faith without legal responsibility. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information. Any investment and economic outlook information contained in this report has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions. This report may contain forward-looking statements. The words “may”, “could”, “should”, “would”, “suspect”, “outlook”, “believe”, “plan”, “anticipate”, “estimate”, “expect”, “intend”, “forecast”, “objective” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risk and uncertainties, about the general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved.

® / ™ Trademark(s) of Royal Bank of Canada. Used under licence.
© RBC Global Asset Management Inc. 2019



**Global Asset
Management**