THE GLOBAL INVESTMENT OUTLOOK

RBC GAM Investment Strategy Committee

SPRING 2019

Global Asset Management

THE RBC GAM INVESTMENT STRATEGY COMMITTEE

The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC GAM. 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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Central banks pivot to a dovish stance, dampening concerns over rising rates and providing support for risk assets. But headwinds from protectionism, fading fiscal stimulus and less favourable financial conditions continue to weigh on global growth trajectory.

Global growth decelerates to still-decent rates

After strong growth in 2017 and 2018, economic momentum has waned and we expect this trend to continue this year and next. The deceleration was largely incorporated into our forecasts from last quarter, but the hit to confidence from financial-market volatility, and the extended U.S. government shutdown, which was not part of our base-case a quarter ago, had negative economic impacts. Globally we look for 3.50 percent growth in 2019 and 3.25 percent growth in 2020, down from nearly 4.00 percent from the past two years. Further deceleration in 2020 seems likely as economic slack has diminished and the U.S. will encounter fiscal headwinds next year. The outlook for emerging markets is slightly better but, here too we expect a moderate slowdown, with 5.25 percent growth penciled in for 2019 and 5.00 percent growth for 2020. To be clear, we are expecting growth to moderate, but these rates remain quite good by post-crisis standards.

Risks to our outlook are constantly evolving

The three main risks to our outlook are protectionism, Chinese growth and the U.S. business cycle. Although protectionism is no longer actively deteriorating, the actions taken thus far are starting to inflict economic damage through slowing global trade. The U.S. is leading the charge on tariffs and we continue to budget for a negative scenario where most of the tariffs already in place remain active, with a possibility of further escalation between the U.S.-China relationship or in the auto sector. In North America, the USMCA deal that was struck last fall may still represent a challenge and we place a small chance that the deal is not ultimately approved. Moreover, moderating activity in China is a particular concern as the country is now the world's second-largest economy and biggest contributor to global growth. The Chinese government has announced a variety of fiscal and monetary measures to counteract slowing growth, but in doing so it has renewed concerns over potential debt problems.

U.S. business cycle is late and advancing

Our scorecard approach continues to situate the U.S. business cycle in late stage, with some underlying movements from last quarter. The 17 inputs in the scorecard rarely agree, but 'late cycle' is still the best guess. Interestingly, the second-best guess has shifted to 'end of cycle' from 'mid cycle' in the past quarter. Supporting the notion that the U.S. business cycle is in late stage is that the U.S. economy is now extremely tight, delinquencies on auto loans are at a high and still-rising level and the yield curve is extremely flat. The fact we are in late cycle doesn't mean investors should necessarily avoid risk-taking, but the risk-reward case is not as strong as compared to earlier points in the cycle, and volatility will likely be greater in this environment.

U.S. dollar strength likely holds

Several factors continue to support the U.S. dollar versus other key currencies. The U.S. economy remains robust relative to the rest of the world and interest rates are higher in America versus other major regions. Our model situates the U.S. dollar in overvalued territory, but not to an extreme degree that would call for significant economic adjustment in the near term. In addition, the U.S. dollar's safe-haven status means the currency generally appreciates when risk assets struggle. While many investors are questioning whether the U.S. dollar is due for a period of weakness after a nearly decade-long bull market, we think the dollar will likely follow a choppy topping process that may continue for a while longer.

Central banks on pause

Central banks are no longer actively tightening monetary policy amid a backdrop of slowing growth, less inflation and increased financial-market volatility. We don't expect rate hikes in any major region over the next year as economic growth decelerates, and also because we believe the neutral policy rate is toward the lower end of central banks' estimates. In addition, we think central banks will lean towards easier policies as they focus on stimulating growth rather than curbing inflation pressures. Dovish central banks reduce the risk of recession in the near term, but could encourage increased risk-taking which raises the chance of recession later on. In Europe and Japan, central banks are in an especially challenging situation as no monetary stimulus has been removed thus far. It now seems inappropriate to do so given the economic slowdown, presenting a risk that the European Central Bank and/or Bank of Japan won't have any room to deliver meaningful stimulus when this cycle eventually comes to a close.

Sovereign bond yields decline in all regions

Global sovereign bonds rallied in the past quarter, reflecting the downshift in economic growth expectations, slightly lower inflation and, perhaps most importantly, the fact that central banks are no longer set to raise rates. Yields on 10-year government bonds are now below our estimates of equilibrium in all major regions, particularly in markets outside of North America. While our models continue to suggest that interest rates are unsustainably low and that the long-term direction for yields is likely higher, we recognize that slowing economic growth and tame inflation could limit upside pressure in the near term. As a result, we have lowered our forecasts for 10-year sovereign bond yields across major regions versus last quarter.

Equities rallied from depressed valuations following broad-based sell-off

Last year's equity-market correction moved stocks to especially attractive valuations, boosting total return potential and setting up the preconditions for the subsequent rally. The world's major stock markets suffered double-digit declines in 2018 and, as the sell-off intensified in December, our composite of global market valuations had fallen to its lowest level in seven years. The powerful rebound in stocks since the start of 2019 began from a point of reduced valuations and was fueled by the recent pivot by central banks and the fact that U.S. and China were making progress toward a trade deal. Although stocks have had a good run so far this year, our models suggest that the rally can persist as long as earnings meet analysts' expectations.

We recognize that the profit outlook for 2019 is less rosy than last year given the absence of another round of tax cuts and slower economic growth, but against a backdrop of moderate inflation and accommodative monetary policy, there is plenty of room for stocks to move up.

Maintaining slight overweight in stocks as economy progresses at a slower pace

Our base case looks for expansion in all major regions and, while growth is moderating, the degree of expected deceleration is quite mild. In this environment, central banks are unlikely to raise interest rates and bond yields will probably be contained. We maintain underweights to fixed income because, in our view, total returns for sovereign bonds are likely to be low for or even slightly negative for a long period. However, that underweight is less than it has been as yields are now at a level that could provide a cushion for returns on risk assets if the economy were to encounter a meaningful downshift. In our base case, though, economic growth should be sufficient to deliver moderate corporate-profit gains that would sustain mid-to-high single-digit increases in North American equities, and low double-digit returns in international and emerging-market stocks. Balancing the risks and opportunities and given these superior return expectations for stocks versus bonds, we feel that maintaining slight overweight exposure to stocks is appropriate. For a balanced, global investor, we currently recommend an asset mix of 58% equities (strategic neutral position: 55%) and 41% fixed income (strategic neutral position: 43%), with the balance in cash.

ECONOMIC & CAPITAL MARKETS FORECASTS

Economic forecast (RBC GAM Investment Strategy Committee)

	UNITED STATES		CANADA		EUROPE		UNITED KINGDOM		JAPAN		CHINA		EMERGING MARKETS*	
	Spring 2019	Change from New Year 2019	Spring 2019	Change from New Year 2019	Spring 2019	Change from New Year 2019	Spring 2019	Change from New Year 2019	Spring 2019	Change from New Year 2019	Spring 2019	Change from New Year 2019	Spring 2019	Change from New Year 2019
REAL GDP														
2018A[1]	2.88%		1.83%		1.83%		1.40%		0.72%		6.58%		5.52%	
2019E	2.25%	(0.25)	1.50%	(0.25)	1.25%	(0.25)	1.25%	(0.25)	1.00%	N/C	6.00%	N/C	5.25%	N/C
2020E	1.75%	N/C	1.50%	N/C	1.25%	N/C	1.25%	N/C	0.50%	N/C	5.75%	N/C	5.00%	N/C
CPI														
2018A	1.95%		1.97%		1.55%		2.01%		0.30%		1.93%		2.37%	
2019E	2.00%	(0.25)	2.00%	N/C	1.75%	N/C	2.25%	N/C	1.25%	N/C	2.25%	(0.25)	3.25%	(0.25)
2020E	2.25%	N/C	2.00%	N/C	1.75%	N/C	2.25%	N/C	1.50%	N/C	2.25%	N/C	3.25%	N/C

A = Actual E = Estimate *GDP Weighted Average of China, India, South Korea, Brazil, Mexico and Russia·. [1]Awaiting actual Q4 2018 GDP release for Russia. As a result, the Emerging Markets real GDP growth figure for 2018 is a forecast.

Targets (RBC GAM Investment Strategy Committee)

	FEBRUARY 2019	FORECAST FEBRUARY 2020	CHANGE FROM NEW YEAR 2019	1-YEAR TOTAL RETURN ESTIMATE* (%)
CURRENCY MARKETS AGAINST USD				
CAD (USD–CAD)	1.32	1.37	0.02	(4.3)
EUR (EUR–USD)	1.14	1.20	0.02	2.1
JPY (USD–JPY)	111.38	102.00	N/C	6.3
GBP (GBP–USD)	1.33	1.25	(0.03)	(7.3)
FIXED INCOME MARKETS				
U.S. Fed Funds Rate	2.50	2.50	(0.50)	N/A
U.S. 10-Year Bond	2.72	2.50	(0.50)	4.6
Canada Overnight Rate	1.75	1.75	(0.50)	N/A
Canada 10-Year Bond	1.94	2.00	(0.40)	1.4
Eurozone Deposit Facility Rate	-0.40	-0.40	(0.20)	N/A
Germany 10-Year Bund	0.18	0.25	(0.50)	(0.5)
U.K. Base Rate	0.75	0.50	(0.50)	N/A
U.K. 10-Year Gilt	1.30	1.00	(0.75)	4.2
Japan Overnight Call Rate	-0.06	-0.10	N/C	N/A
Japan 10-Year Bond	-0.02	0.10	(0.05)	(1.2)
EQUITY MARKETS				
S&P 500	2784	2875	N/C	5.4
S&P/TSX Composite	15999	16500	150	6.4
MSCI Europe	126	130	(1)	7.4
FTSE 100	7075	7450	(50)	10.2
Nikkei	21385	22800	(1700)	8.8
MSCI Emerging Markets	1051	1150	65	12.5

*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD.

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 returns[1] and the volatility[2] 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 setting is 55% equities, 43% fixed income, 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.

[1] **Average return:** The average total return produced by the asset class over the period 1979 – 2019, based on monthly results.

[2] **Volatility:** 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	PAST RANGE	SPRING 2018	SUMMER 2018	FALL 2018	NEW YEAR 2019	SPRING 2019
CASH	**2.0%**	1.0% – 16%	2.0%	2.0%	2.0%	1.0%	**1.0%**
BONDS	**43.0%**	25.0% – 54.0%	40.0%	40.0%	40.0%	41.0%	**41.0%**
STOCKS	**55.0%**	36.0% – 65.0%	58.0%	58.0%	58.0%	58.0%	**58.0%**

Note: Effective September 1, 2014, we revised our strategic neutral positions within fixed income, lowering the 'neutral' commitment to cash from 5% to 2%, and moving the difference to bonds. This takes advantage of the positive slope of the yield curve which prevails over most time periods, and allows our fixed income managers to shorten duration and build cash reserves whenever a correction in the bond market, or especially an inverted yield curve, is anticipated.

REGIONAL ALLOCATION

GLOBAL BONDS	WGBI* FEB. 2019	PAST RANGE	SPRING 2018	SUMMER 2018	FALL 2018	NEW YEAR 2019	SPRING 2019
North America	**41.7%**	18% – 47%	43.5%	43.8%	45.5%	46.8%	**46.7%**
Europe	**39.0%**	32% – 56%	36.7%	36.2%	35.0%	34.0%	**36.5%**
Asia	**19.4%**	17% – 35%	19.8%	20.0%	19.5%	19.2%	**16.9%**

Note: Past Range reflects historical allocation from Fall 2002 to present.

GLOBAL EQUITIES	MSCI** FEB. 2019	PAST RANGE	SPRING 2018	SUMMER 2018	FALL 2018	NEW YEAR 2019	SPRING 2019
North America	**64.0%**	51% – 63%	60.0%	61.5%	63.1%	61.8%	**61.5%**
Europe	**18.1%**	18% – 35%	20.2%	18.5%	17.8%	18.6%	**19.1%**
Asia	**10.7%**	9% – 18%	12.4%	12.5%	11.7%	12.1%	**11.9%**
Emerging Markets	**7.3%**	0% – 8.5%	7.5%	7.5%	7.5%	7.5%	**7.5%**

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** FEB. 2019	RBC GAM ISC NEW YEAR 2019	RBC GAM ISC SPRING 2019	CHANGE FROM *** NEW YEAR 2019	WEIGHT VS. BENCHMARK
Energy	6.04%	4.39%	4.04%	(0.35)	66.9%
Materials	4.54%	4.62%	2.54%	(2.08)	55.9%
Industrials	11.14%	8.97%	11.14%	2.17	100.0%
Consumer Discretionary	10.34%	11.74%	11.34%	(0.40)	109.7%
Consumer Staples	8.50%	8.56%	8.50%	(0.06)	100.0%
Health Care	13.01%	15.40%	14.01%	(1.39)	107.7%
Financials	16.13%	15.04%	14.13%	(0.90)	87.6%
Information Technology	15.29%	17.56%	17.29%	(0.27)	113.1%
Communication Services	8.36%	8.16%	8.36%	0.20	100.0%
Utilities	3.37%	2.60%	5.37%	2.77	159.3%
Real Estate	3.29%	2.97%	3.29%	0.32	100.0%

*FTSE World Government Bond Index **MSCI World Index ***As of the close on November 30, 2018, the Telecommunication Services Sector was broadened and renamed Communication Services. This modification in the classifications also impacted the Consumer Discretionary and Information Technology sectors.
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%	1.0%	1.0%
Fixed Income	78%	55%-95%	76.0%	76.0%
Total Cash & Fixed Income	80%	65%-95%	77.0%	77.0%
Canadian Equities	10%	5%-20%	11.4%	11.3%
U.S. Equities	5%	0%-10%	5.3%	5.4%
International Equities	5%	0%-10%	6.3%	6.3%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	20%	5%-35%	23.0%	23.0%

	RETURN	VOLATILITY
40-Year Average	8.5%	5.5%
Last 12 Months	3.8%	3.4%

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%	1.0%	1.0%
Fixed Income	63%	40%-80%	61.0%	61.0%
Total Cash & Fixed Income	65%	50%-80%	62.0%	62.0%
Canadian Equities	15%	5%-25%	16.3%	16.0%
U.S. Equities	10%	0%-15%	10.1%	10.3%
International Equities	10%	0%-15%	11.6%	11.7%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	35%	20%-50%	38.0%	38.0%

	RETURN	VOLATILITY
40-Year Average	8.8%	6.5%
Last 12 Months	3.8%	4.5%

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%	1.0%	1.0%
Fixed Income	43%	20%-60%	41.0%	41.0%
Total Cash & Fixed Income	45%	30%-60%	42.0%	42.0%
Canadian Equities	19%	10%-30%	19.9%	19.5%
U.S. Equities	20%	10%-30%	19.9%	20.2%
International Equities	12%	5%-25%	13.8%	13.9%
Emerging Markets	4%	0%-10%	4.4%	4.4%
Total Equities	55%	40%-70%	58.0%	58.0%

	RETURN	VOLATILITY
40-Year Average	9.1%	7.7%
Last 12 Months	3.6%	6.3%

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%	1.0%	1.0%
Fixed Income	28%	5%-40%	25.9%	25.9%
Total Cash & Fixed Income	30%	15%-45%	26.9%	26.9%
Canadian Equities	23%	15%-35%	23.8%	23.3%
U.S. Equities	25%	15%-35%	24.7%	25.1%
International Equities	16%	10%-30%	18.2%	18.3%
Emerging Markets	6%	0%-12%	6.4%	6.4%
Total Equities	70%	55%-85%	73.1%	73.1%

	RETURN	VOLATILITY
40-Year Average	9.2%	9.4%
Last 12 Months	3.3%	7.7%

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%-10%	0.0%	0.0%
Total Cash & Fixed Income	2%	0%-20%	2.0%	2.0%
Canadian Equities	32.5%	20%-45%	32.3%	31.6%
U.S. Equities	35.0%	20%-50%	33.0%	33.5%
International Equities	21.5%	10%-35%	23.5%	23.7%
Emerging Markets	9.0%	0%-15%	9.2%	9.2%
Total Equities	98%	80%-100%	98.0%	98.0%

	RETURN	VOLATILITY
40-Year Average	9.6%	12.1%
Last 12 Months	3.1%	10.5%

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 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.

EXCHANGE RATES
Periods ending February 28, 2019

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.3160	(0.96)	(3.61)	2.55	(0.92)	3.52
USD–EUR	0.8792	(0.47)	0.73	7.26	(1.48)	3.95
USD–GBP	0.7539	(3.93)	(3.90)	3.80	1.62	4.77
USD–JPY	111.4650	(1.81)	1.70	4.47	(0.38)	1.83

Note: all changes above are expressed in US dollar terms

CANADA
Periods ending February 28, 2019

	USD					**CAD**		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE Canada Univ. Bond Index TR	3.89	5.32	1.05	3.12	(0.26)	2.90	3.63	2.17

U.S.
Periods ending February 28, 2019

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE U.S. Government TR	2.85	0.98	3.14	1.71	2.31	1.87	5.35	0.64
Barclays Capital Agg. Bond Index TR	2.86	1.00	3.17	1.69	2.32	1.88	5.80	0.75

GLOBAL
Periods ending February 28, 2019

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE WGBI TR	2.89	0.87	(0.50)	1.89	0.74	1.91	1.63	0.82
FTSE European Government TR	2.84	0.86	(4.48)	2.03	(0.54)	1.86	(2.04)	1.09
FTSE Japanese Government TR	3.58	(0.86)	(2.71)	1.12	0.30	2.59	(0.23)	0.19

CANADA
Periods ending February 28, 2019

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P/TSX Composite	7.12	16.36	4.20	11.81	1.90	6.10	6.86	10.78
S&P/TSX 60	6.30	15.64	5.09	12.46	2.78	5.28	7.78	11.42
S&P/TSX Small Cap	9.03	16.13	(4.39)	9.87	(2.92)	7.99	(1.95)	8.86

U.S.
Periods ending February 28, 2019

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P 500 TR	1.42	11.48	4.68	15.28	10.67	0.45	7.35	14.22
S&P 400 TR	2.11	15.14	4.14	14.53	8.49	1.14	6.79	13.48
S&P 600 TR	1.52	15.45	7.20	16.86	9.34	0.55	9.94	15.78
Russell 3000 Value TR	0.60	11.50	3.28	12.98	7.97	(0.36)	5.91	11.94
Russell 3000 Growth TR	3.31	13.31	6.63	18.00	12.28	2.32	9.35	16.91
NASDAQ Composite Index TR	2.76	13.52	3.57	18.23	11.82	1.77	6.21	17.14

Note: all rates of return presented for periods longer than 1 year are annualized

Source: Bloomberg/MSCI

GLOBAL
Periods ending February 28, 2019

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	2.58	11.02	0.43	12.64	6.53	1.65	3.22	11.59
MSCI EAFE TR *	3.98	9.29	(6.04)	9.32	2.07	3.04	(3.43)	8.30
MSCI Europe TR *	5.08	10.17	(5.46)	8.52	0.71	4.12	(2.83)	7.51
MSCI Pacific TR *	2.25	7.79	(7.17)	11.08	4.83	1.32	(4.59)	10.04
MSCI UK TR *	6.53	10.72	(1.46)	7.62	(0.17)	5.56	1.29	6.62
MSCI France TR *	5.20	10.23	(5.56)	11.21	2.54	4.24	(2.93)	10.17
MSCI Germany TR *	2.23	8.47	(14.09)	7.68	(0.80)	1.30	(11.70)	6.67
MSCI Japan TR *	(1.02)	6.07	(10.29)	9.53	5.22	(1.92)	(7.80)	8.51
MSCI Emerging Markets TR *	6.10	9.00	(9.90)	15.04	4.13	5.13	(7.39)	13.96

GLOBAL EQUITY SECTORS
Periods ending February 28, 2019

	USD					CAD		
Sector: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	2.31	13.26	2.04	9.42	(2.81)	1.38	4.88	8.39
Materials TR *	6.39	10.87	(7.06)	15.04	2.63	5.42	(4.47)	13.96
Industrials TR *	5.07	14.71	(2.77)	12.90	6.48	4.11	(0.07)	11.85
Consumer Discretionary TR *	2.74	10.44	0.12	12.71	7.85	1.80	2.91	11.66
Consumer Staples TR *	0.16	7.40	1.99	5.03	5.71	(0.75)	4.82	4.05
Health Care TR *	(1.43)	7.22	8.97	10.49	7.49	(2.32)	12.00	9.46
Financials TR *	1.24	11.40	(9.50)	13.64	5.05	0.32	(6.98)	12.58
Information Technology TR *	5.41	14.65	4.10	22.81	15.46	4.45	7.00	21.67
Communication Services TR*	1.82	9.46	3.11	2.76	2.43	0.89	5.97	1.80
Utilities TR *	5.26	7.68	16.28	9.38	6.13	4.30	19.51	8.36
Real Estate TR *	4.99	10.93	10.30	NA	NA	4.04	13.37	NA

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

GLOBAL INVESTMENT OUTLOOK

Central banks to the rescue

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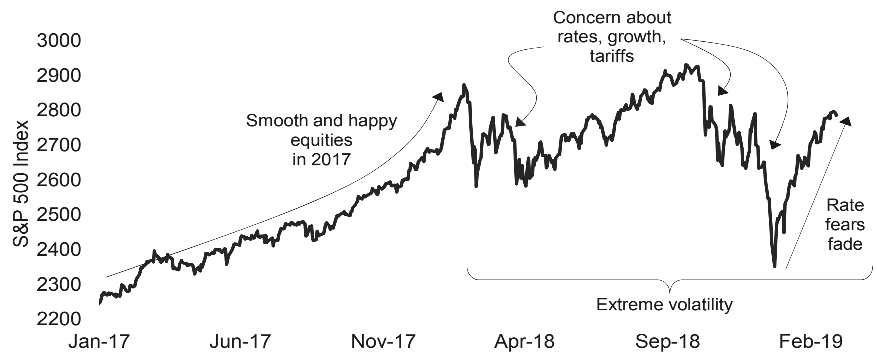
Financial markets suffered a bout of extreme volatility in late 2018, punctuated by a sharp decline in risk assets that deflated many international equity indexes into “bear” territory, defined as a peak-to-trough decline of 20 percent or more. The S&P 500 Index missed this fate by mere inches. Fortunately, risk assets have substantially reversed course since then, recovering much of the lost ground (Exhibit 1).

Exhibit 1: Extreme stock-market volatility



Note: As of 2/28/2019. Source: WSJ, Haver Analytics, RBC GAM

From an economic standpoint, financial-market worries were mainly a function of two things: concern about slowing economic growth and a fear of rising interest rates (Exhibit 2). The rate worries are now fading, but the declining growth trajectory has not yet been resolved. To the contrary, global growth slowed steadily across 2018 and we forecast a further deceleration through 2019 and into 2020 (Exhibit 3). This is not to say that growth will be poor in the coming years, but rather that it is unlikely to replicate the stellar performance of the past few years.

Exhibit 2: Stock market’s macro concerns

Worse growth	Higher rates
• Slowing global growth • Late stage of cycle • 2019 headwinds coming (fin. cond., fading tax cuts, protectionism) • China slowing	• Central banks have tightened • Bond yields are up vs. 2016 • Economy to slow from higher rates • Stocks dislike higher rates due to margin hit, discount rate, substitution
However: • Global growth rate still adequate • U.S. resists slowdown so far • Models say no recession just yet	**However:** • Central banks are self-correcting • “Neutral” a lot lower than prior cycles • Yields may not need to rise further
Still an issue	**A diminishing concern**

Source: RBC GAM

Economic headwinds include protectionism, fading fiscal stimulus and less favourable financial conditions. These headwinds blow more strongly in the U.S., suggesting that the country’s growth advantage could begin to shrink relative to the rest of the developed world. The economy of the other global behemoth – China – also continues to slow, though stimulus programs may start to gain traction by the second half of the year. Canada confronts its own set of challenges relating to oil woes, competitiveness and housing.

The business cycle is now at a late stage and continues to inch forward. Corroborating this positioning, inflation is no longer low and U.S. monetary policy is no longer loose.

However, the recent economic deceleration should limit the extent of any further increase in inflation or tightening of monetary policy.

There are also snippets of good news. Central banks are now shying away from further tightening in response to market concerns and economic wobbles. Protectionism is no longer actively deteriorating, with the prospect of a U.S.-China détente in the offing. China has also recently strung together a few positive data points, highlighting the possibility that the country's economy stabilizes more quickly than expected.

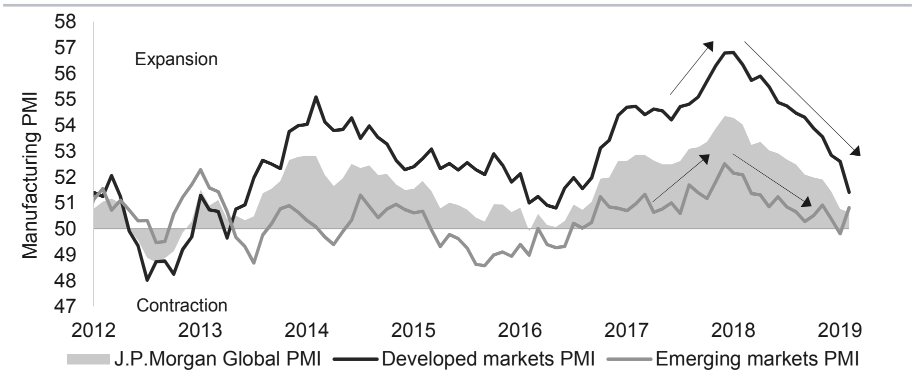
From an asset-allocation perspective, we maintain an overweight position in equities, motivated by several considerations: a superior anticipated long-term return for equities versus bonds, a base-case forecast for modest earnings growth, plus reasonable equity valuations contrasted against low bond yields. However, the overweight is only small due to the lateness of the cycle and the associated risk of recession.

We anticipate continued financial-market volatility in 2019, due to the lateness of the cycle, the flatness of the yield curve, and the degree to which the big macro questions of the day such as Brexit and tariffs will be resolved by mercurial politicians.

Key macro considerations

A variety of headwinds are set to temper global growth over the coming year (Exhibit 4).

Exhibit 3: Growth indicators are on a mostly downward trajectory



Note: As of Feb 2019. PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM

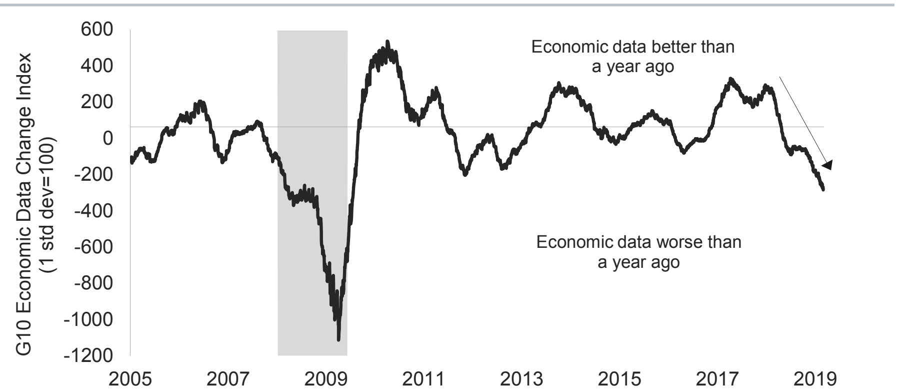
Exhibit 4: Growth headwinds ahead, but keep in perspective

	Global impulse	U.S. impulse
1.	Negative economic momentum	Resilient so far
2.	Tighter financial conditions	Worse for U.S.
3.	Higher protectionism	U.S. instigated
4.	Mixed fiscal prospects globally	Fading U.S. fiscal tailwind
2019 GDP forecast	3.50%	2.25%

Less growth than 2017 and 2018, but in line with post-crisis norm

Source: Haver Analytics, RBC GAM

Exhibit 5: Global Data Change Index worst since financial crisis



Note: As of 2/28/2019. Source: Citigroup, Bloomberg, RBC GAM

Evident negative economic momentum provides the first such argument. The global data-change index shows that the past year has suffered the greatest decay in economic growth since the financial crisis (Exhibit 5).

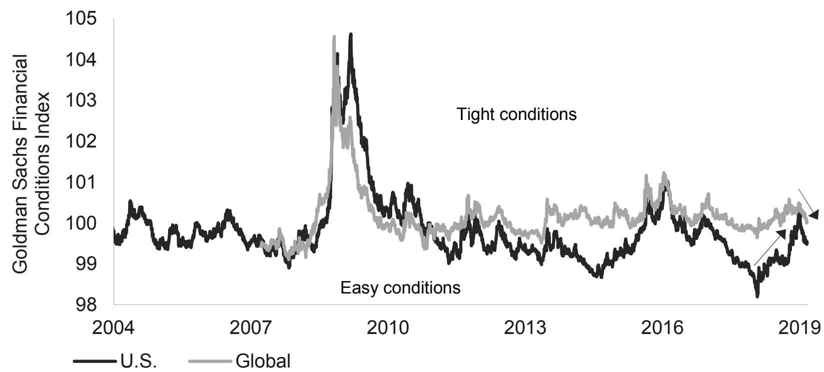
Tighter financial conditions will also impede growth over the first half of 2019 (Exhibit 6). This primarily reflects the lagged effect of higher interest rates and wider credit spreads over the past few years. Of course, financial conditions have since partially unwound this tightening, arguing that the drag could begin to ease toward the end of 2019 and into 2020.

Protectionism should prove a more prominent impediment to global growth in 2019 given the lagged effect of Chinese tariffs, the ongoing effects of steel and aluminum tariffs and the threat of auto tariffs.

Finally, U.S. fiscal stimulus is fading, ceasing to provide a material boost to economic growth in 2019, and eventually translating into an outright drag in 2020. This marks quite a contrast to last year, when stimulus provided a heroic boost to U.S. growth.

These combined drags argue for less global growth. Interestingly, three of the four factors – tightening financial conditions, protectionism and fading fiscal stimulus – provide a greater headwind to the U.S. economy than to the global economy. In turn, we look for the U.S. growth advantage to shrink going forward.

Exhibit 6: Financial conditions impose drag, but they are easing again



Note: As of 2/28/2019 for U.S., 2/27/2019 for global. Source: Goldman Sachs, Bloomberg, RBC GAM

Exhibit 7: Long-term headwinds to developed-world growth

Human factors	Economic structure	Post-crisis
• Demographics: – Slower pop. growth – Rising retired % • Decelerating gains in: – Education – Health – Urbanization • Rising complacency: – Low labor mobility – More segregated – Less risk-taking • Falling societal trust • Higher inequality	• Fading globalization • Declining creative destruction: – Lower firm turnover – Higher firm concentration • Goods ➡ services • Maturing EM economies **Technology** • Running out of big new innovations?	• Populism/protectionism • Secular stagnation: – Diminished expectations – Less business investment – Skill decay • Debt excesses – Servicing – Deleveraging

Source: RBC GAM

Given the time of year, it is perhaps also worth mentioning that U.S. growth often suffers from a curious seasonal distortion that makes the first quarter of each year appear unnaturally weak. Any U.S. softness in the near term needs to be filtered through this lens.

From a longer-term perspective, many structural headwinds continue to limit the trend rate of economic growth (Exhibit 7). Considerations such as deteriorating demographics and maturing emerging-market economies mean that the speed limit on future growth is less than it was a decade or two ago.

However, one such drag may be finally starting to fade. Since the global financial crisis, secular stagnation – an aversion to the sort of risk-taking that underpins economic growth – has limited productivity growth. With the passage of a decade, the crisis is now losing its grip and the rate of U.S. productivity growth is finally beginning to trend higher (Exhibit 8). Thus, the structural backdrop is one of a substantially diminished but slightly improving speed limit on growth.

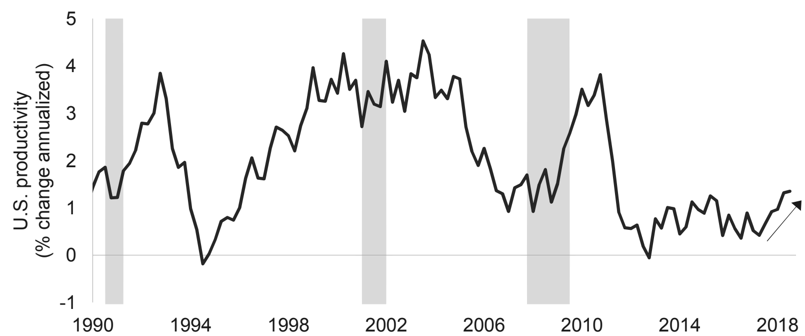
Below-consensus forecasts

The aforementioned macroeconomic factors argue for decelerating growth through 2019 and into 2020. This deceleration was already significantly incorporated into our forecasts last quarter, but several additional elements have prompted further slight downgrades (Exhibit 9).

These new considerations include the extraordinary financial-market volatility of the past several months, which has dinged confidence (Exhibit 10) and likely growth. Similarly, the recent U.S. government shutdown, the longest in the country's history, was not part of our base-case forecast a quarter ago, and so shaves a little more off the economic outlook. Finally, economic momentum continues to trend negatively, arguing for further downgrades.

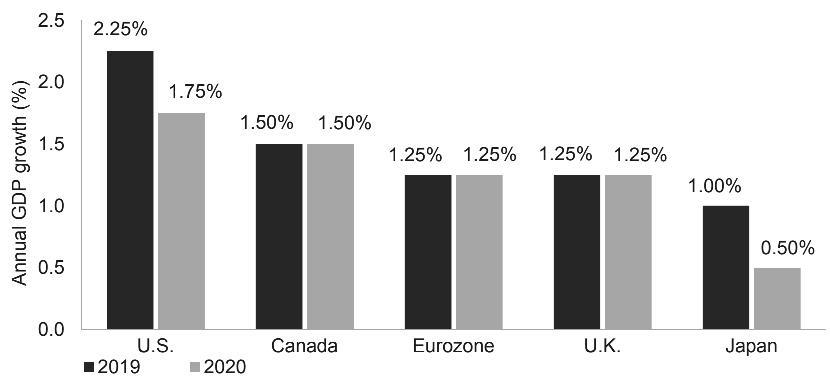
Tallying these effects, we arrive at mostly below-consensus growth forecasts, including for the U.S., Canada, the Eurozone and the U.K. (Exhibit 11). This jibes with the fact that the consensus global-growth forecast is still declining more often than not – historically a signal to

Exhibit 8: U.S. productivity is reviving, but still low



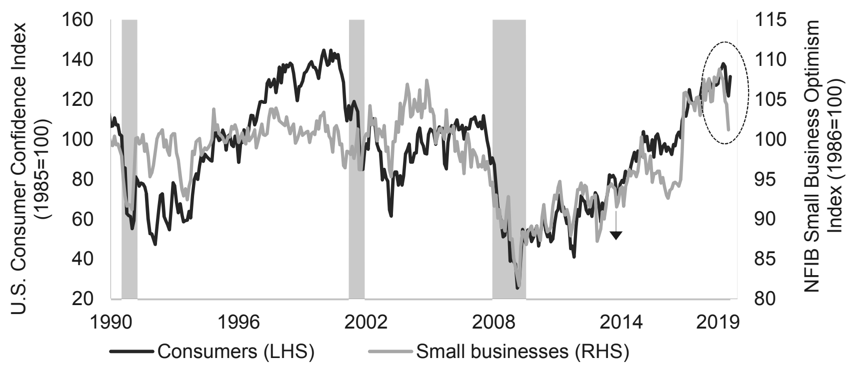
Note: As of Q3 2018. Productivity measured as rolling 8-quarter annualized % change of the business sector real output per hour of all persons. Shaded area represents recession. Source: BLS, NBER, Haver Analytics, RBC GAM

Exhibit 9: RBC GAM GDP forecast for developed markets



Source: RBC GAM

Exhibit 10: U.S. consumer and business confidence tripped on recent market decline



Note: Consumer Confidence Index as of Feb 2019, Small Business Optimism Index as of Jan 2019. Shaded area represents recession. Source: The Conference Board, NFIB, Haver Analytics, RBC GAM take a below-consensus position (Exhibit 12).

Globally, we look for 3.50 percent growth in 2019 and 3.25 percent growth in 2020, down from nearly 4.00 percent growth in both 2017 and 2018.

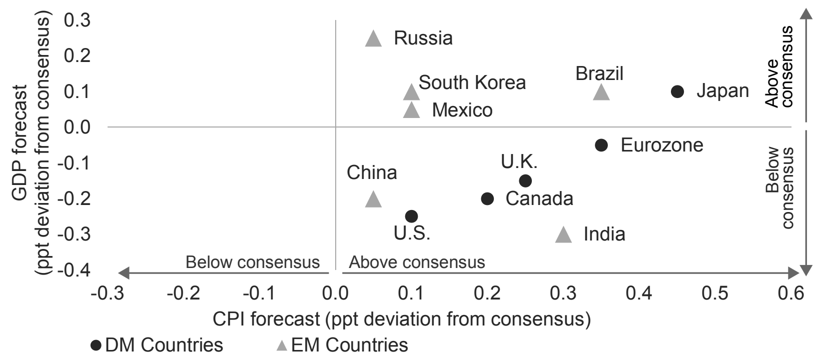
Growth forecasts for 2020 have now been added and adhere to a familiar template, mostly anticipating less growth than the prior year and with below-consensus positioning. The rationale for a further deceleration in 2020 growth relates partly to the notion that economic slack has largely been wrung from the system, limiting further gains, and also because significant U.S. fiscal headwinds begin to present themselves in 2020.

For emerging-market economies, we forecast 5.25 percent growth in 2019 and 5.00 percent growth in 2020, continuing a downward trend, yet still triple the pace of the developed world (Exhibit 13).

Macro risks

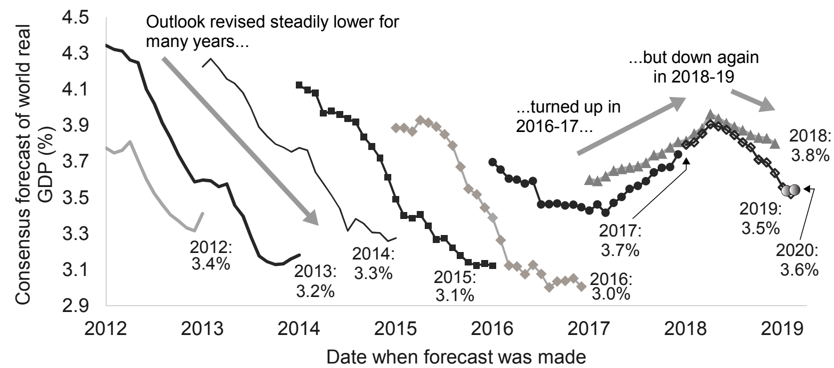
The world remains awash in uncertainty. Some of this could manifest in the form of better-than-expected outcomes, the possibility, for example, that secular stagnation might ebb more quickly than presently assumed. However, much of the uncertainty tilts toward downside risks. Among a fairly long list of these risks (Exhibit 14), the three primary items are protectionism, Chinese growth and the U.S. business cycle.

Exhibit 11: GAM forecast vs. consensus for 2019



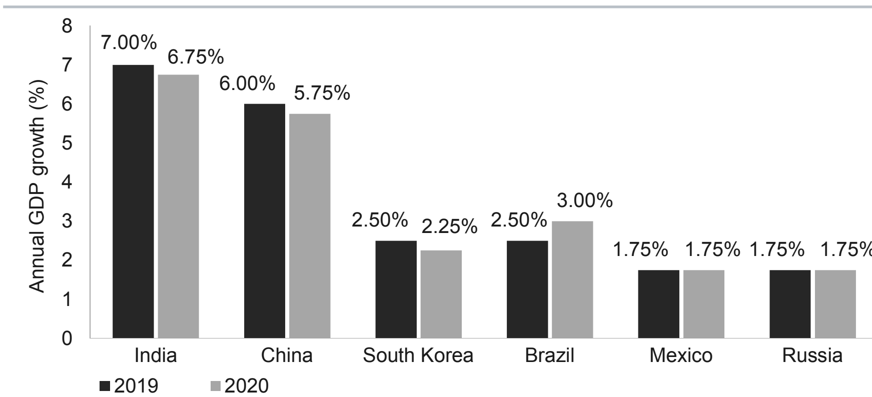
Note: Deviation measured as difference between RBC GAM forecast and consensus forecast. Consensus forecast as of Feb 2019. Source: Consensus Economics, RBC GAM

Exhibit 12: Consensus forecast mostly edges down



Note: As of Feb 2019. Source: Consensus Economics, IMF, RBC GAM

Exhibit 13: RBC GAM GDP forecast for emerging markets



Source: RBC GAM

Protectionism lingers

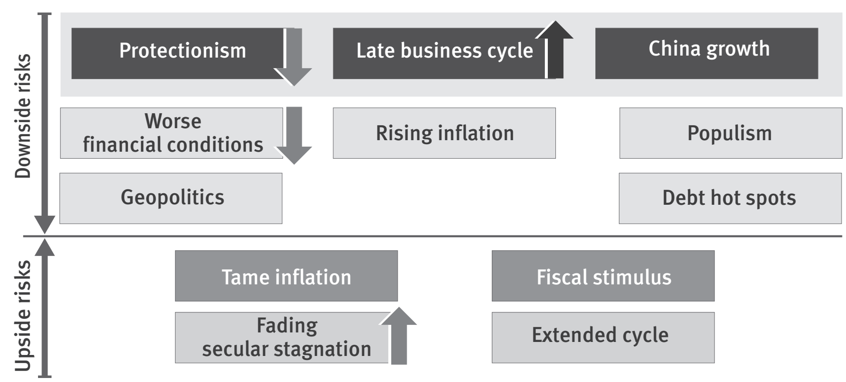
Protectionism is no longer actively deteriorating, but what has already been delivered is starting to inflict economic damage. Global trade growth has now palpably slowed (Exhibit 15) and import prices have risen amid Brexit squabbles, U.S. tariffs and a host of more subtle non-tariff barriers.

The U.S. remains the prime instigator of tariff increases, lifting its average tariff rate substantially in 2018, and threatening further increases in 2019 (Exhibit 16). In so doing, the U.S. has gone from having among the lowest tariff rates in the world to quite a high tariff hurdle by developed-country standards.

Among the spectrum of possible protectionist outcomes, we continue to budget for a "negative" scenario in which the bulk of the substantial tariffs now in place remain active, plus perhaps a modest further escalation either with regard to the U.S.-China relationship or in the auto sector (Exhibit 17). This scenario is set to subtract roughly half a percentage point from economic growth in the U.S. and China over the next few years. This is very real damage, and helps explain our forecast for a dimming outlook.

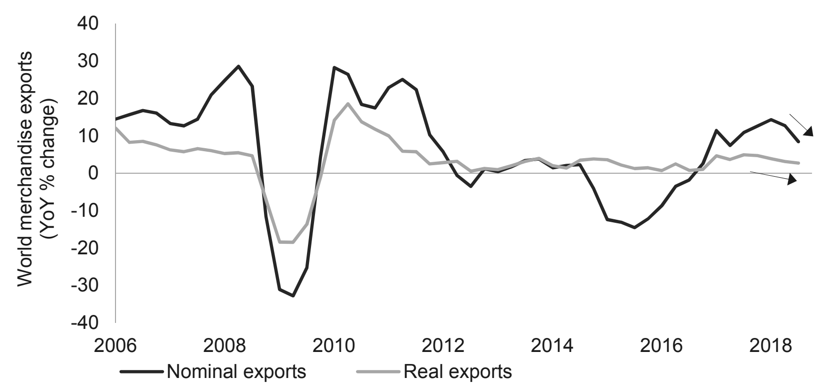
At the same time, it is worth recognizing that a U.S. tariff rate of 3 percent to 4 percent is still relatively low when compared to prior U.S. protectionist pushes (Exhibit 18). Few believe tariffs will plunge economies into recession without assistance from other conspirators.

Exhibit 14: Macro risks: Varied and substantial



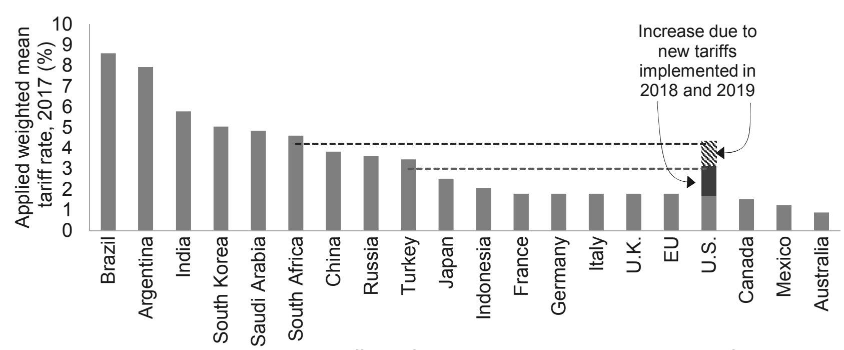
Source: RBC GAM

Exhibit 15: Global trade has slowed significantly



Note: As of Q3 2018. Nominal exports in U.S. dollars. Source: WTO, RBC GAM

Exhibit 16: U.S. tariff rate now substantially higher



Note: Applied weighted mean tariff rates for all products. Deutsche Bank estmates for 2018 and 2019 U.S. tariff rates based on additional tariffs announced up to October 2018.
Source: Deutsche Bank, World Bank, Haver Analytics, RBC GAM

Although representing our best guess, a "negative" protectionist outcome is hardly preordained. At one extreme, a worst-case scenario trade war is still conceivable with a 15 percent chance, while at the other extreme, temporary U.S. tariffs could yet convince targeted countries to reduce their own trade barriers. But perhaps of greatest relevance, the second-most likely outcome is a "slightly negative" scenario in which U.S.-China tensions diminish somewhat.

With Brexit discussed later in this report, the remaining three key protectionist issues concern North American trade, the U.S.-China relationship and the imposition of blanket tariffs.

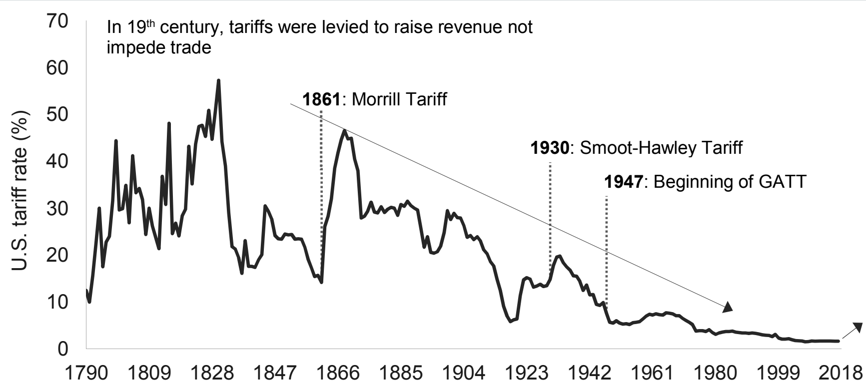
A new North American trade deal called USMCA was struck last fall between the U.S., Mexico and Canada. This proposed replacement for NAFTA represents an important victory against protectionism. However, passing USMCA is likely to be a challenging affair given the divided aisles of Congress. Both Democrats and Republicans are talking a tough game, demanding changes to the pact. But international pacts are not usually amenable to such fiddling, leaving an uncertain outcome. Since the announcement of the deal, we have maintained that there is a 15 percent chance that the USMCA deal is not ultimately approved. The recent government shutdown in the U.S. reflects the partisan strife in the U.S. For its part,

Exhibit 17: U.S. trade scenarios and consequences

Scenario	Worst case	Negative	Slightly negative	Neutral	Best case
Likelihood	15%	40%	25%	10%	10%
Detail	Trade war	Substantial tariffs	Small tariffs	Trump tariffs unwind	Foreign barriers fall to pressure
Economic effect	U.S.: -0.7 to -4.0%	U.S.: -0.4 to -0.8%	U.S.: -0.3%	U.S.: 0.0%	U.S.: positive
	CN: -0.8 to -1.8%	CN: -0.4 to -0.8%	CN: -0.2%	CN: 0.0%	CN: ?
	CA: -1.1 to -4.8%	CA: -0.4 to -0.8%	CA: -0.4%	CA: 0.0%	CA: ?

Source: RBC GAM

Exhibit 18: U.S. tariff rate was declining until recently



Note: As of 2017. Source: Historical Statistics of the United States, World Bank, RBC GAM

Canada has also made half-hearted threats about refusing to vote USMCA through Parliament if lingering steel and aluminum tariffs are not lifted.

The USMCA is arguably slightly worse for all three countries than the NAFTA deal that preceded it, placing limitations on the auto sector and in a variety of other subtle ways. On the other hand, it is a better deal than was initially expected, with the U.S. backing away from some of its more extreme demands. The negotiations also revealed some useful things about the U.S. approach to trade deals: first and foremost, a genuine desire to strike a deal, and second, a negotiating strategy of demanding the sun but accepting the moon.

The trade focus has now pivoted to the U.S.-China relationship. This interest is entirely rational given that the world's two largest economies are involved, and that China alone is responsible for 61 percent of the U.S. trade deficit. The original March 1 negotiating deadline between the countries was extended and expectations are that U.S. President Trump and Chinese President Xi will aim to finalize a deal in late March or April. This is broadly positive news, and reduces the risk that the U.S. will ratchet its tariff rate on US$200 billion in Chinese imports, up from 10 percent to the threatened 25 percent level.

All the same, our suspicion is that frictions between the U.S. and China are not about to disappear altogether. Even with tariffs plausibly no longer rising, both countries have been waging a guerilla war against each other along other non-tariff fronts, including targeting each other's corporate champions and limiting investment flows (Exhibit 19).

Furthermore, the root of the dispute between the U.S. and China has less to do with a trade deficit that might plausibly be narrowed by China buying more U.S. soybeans and autos, and more to do with the asymmetric advantages that China's economic model showers upon its corporate champions via state ownership through subsidized borrowing, capital controls and intellectual-property acquisition (Exhibit 20). As a result, we budget for frictions between the two countries that extend well beyond the current negotiating window, and for that matter, even beyond the end of President Trump's presidency.

Exhibit 19: Trade-war ammunition extends well beyond tariffs

Tariffs:
- Universal
- Geographic filter
- Product filter

Non-tariff barriers:
- Import quota
- Domestic subsidy
- Border thickness
- Technical barrier
- U.S. blocking WTO judge appointments

Investments:
- Restrict inward capital flows
- Restrict inward corporate acquisitions
- Sell foreign holdings (China: U.S. bonds)

Export restrictions:
- Access to Chinese "rare Earths"
- Access to advanced U.S. tech

Other pressure points:
- Immigration restrictions
- Constrain individual firms (ZTE, Huawei, Qualcomm, Micron, Apple)
- Access to $ clearance system
- Gov't procurement contracts
- Exchange rate manipulation
- Universal Postal Union
- Inflame public sentiment (boycott, tourism)
- Military posturing

Source: RBC GAM

Exhibit 20: Hard-to-resolve U.S.-China frictions

Sources of friction			
U.S. complaints about China		China complaints about U.S.	
Trade surplus	Capital controls	Tariffs	Control of global order *(WB/WTO/UN/IMF/G7, etc.)*
State-owned enterprises	FX manipulation	Pacific clout	
Joint venture requirements	Challenging global order *(One Belt One Road/AIIB/South China Sea)*		
IP teft			

Source: Haver Analytics, Wikipedia, RBC GAM

The third major protectionist issue has lately taken a back seat to the others but could return to the forefront in the coming months. The U.S. has on several occasions instituted a blanket tariff on a particular good, hitting all or several countries simultaneously. The most prominent such tariffs from 2018 were on steel and aluminum. These remain in place for many jurisdictions, including Canada – the largest external supplier of steel and aluminum to the U.S. Auto tariffs may be a new focal point for 2019, with the EU and Japan likely to be targeted.

China slows

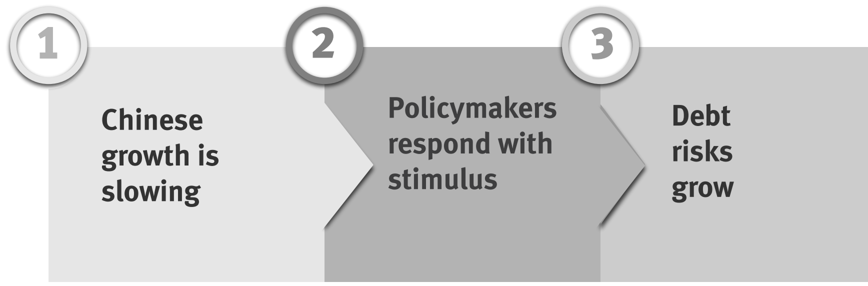
China continues to merit careful attention. Not only is it responsible for a gargantuan share of global growth, but its economy is now slowing palpably and a debate has arisen regarding the anticipated effectiveness of recent stimulus countermeasures and the extent to which this stimulus might enhance the country's debt problems (Exhibit 21).

The Chinese economy has long been on a gradually decelerating trajectory, undermined by deteriorating demographics, dimming competitiveness (Exhibit 22), faltering globalization and the growth limits of a maturing economy. But the past year then witnessed a further jolt lower, spurred by deleveraging efforts, U.S. tariffs and weakening global demand (Exhibit 23). We forecast below-consensus Chinese growth of 6.00 percent for 2019, followed by 5.75 percent for 2020. China itself has acknowledged its slowdown by scaling back its official growth target to the range of 6.00 percent to 6.50 percent.

Attempting to limit the extent of the deceleration, Chinese policymakers have announced several rounds of stimulus, mainly via a mix of monetary and fiscal policy (Exhibit 24). More may be approved at the annual meeting of the National People's Congress. Collectively, these measures should deliver a significantly positive impulse, but are not on the same scale as prior big pushes.

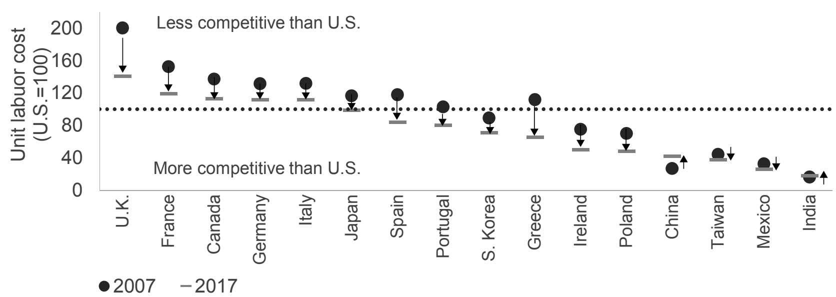
The nature of this round of stimulus is quite unusual by Chinese standards, leaning less on infrastructure and

Exhibit 21: The China debate for 2019



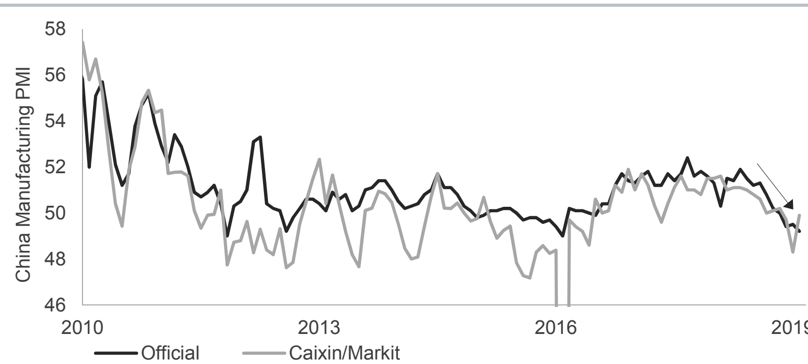
Source: RBC GAM

Exhibit 22: Relative labour competitiveness by country



Note: Competitiveness factors not considered include energy costs, the price of inputs, tax rates, labour laws and regulatory burden. Market exchange rate used to convert wages to reflect actual labour costs facing firms; purchasing power parity exchange rates used to convert real value added to reflect the quantity of goods produced on the presumption that multinationals could then sell them into any market. Source: The Conference Board International Labor Comparisons program, Macrobond, RBC GAM

Exhibit 23: Chinese growth has declined notably



Note: As of Feb 2019. Source: China Federation of Logistics & Purchasing, IHS Markit, Macrobond, RBC GAM more on tax cuts. As a result, the payoff is more uncertain than usual, especially given the stubbornly high savings rate of Chinese households. Fiscal stimulus also operates with a lag, such that any significant stabilization, let alone a rebound, is unlikely until the second half of the year.

Finally, when the Chinese government delivers stimulus, debt loads usually rise alongside the effort. This is not a trivial concern for China, where debt is already quite high by emerging-market standards (Exhibit 25). That said, the country has tamed its most egregious debt hot spots over the past three years and so we do not expect a problematic debt flare-up again.

Late business cycle

We continue to closely monitor the U.S. business cycle. As in prior quarters, our scorecard approach continues to make the case for a "late cycle" interpretation (Exhibit 26). But, upon closer investigation, this apparent stability reveals considerable motion beneath the surface. The various inputs used to construct the scorecard don't all agree on the continued longevity of the expansion, but they do continue to edge forward. Although "late cycle" remains the best guess, the most compelling counter-claim has now shifted from merely "mid cycle" all the way to "end of cycle."

The fact that we may be late in the cycle doesn't make the case that

Exhibit 24: Chinese policymakers to the rescue

Stimulus	Assessment
Currency	• Moderate depreciation over past year
Monetary policy	• Repeated rate cuts / money injections
Fiscal policy	• Local government infrastructure • Inducement for corporate cap ex • Personal income tax • VAT and corporate tax cuts likely coming • Auto sales tax cut coming??
Regulations	• Easier housing market rules
Other considerations	
Prior track record	• Chinese policymakers historically among best in world • Have previously succeeded in restoring growth
Complications	• China's structural tailwinds fading • Trying not to re-inflate debt • Stimulus works with a lag • New unfamiliar kind of stimulus ⇨ less infrastructure-driven **= Less success than prior efforts?**

Source: RBC GAM

Exhibit 25: Corporate debt in China is high

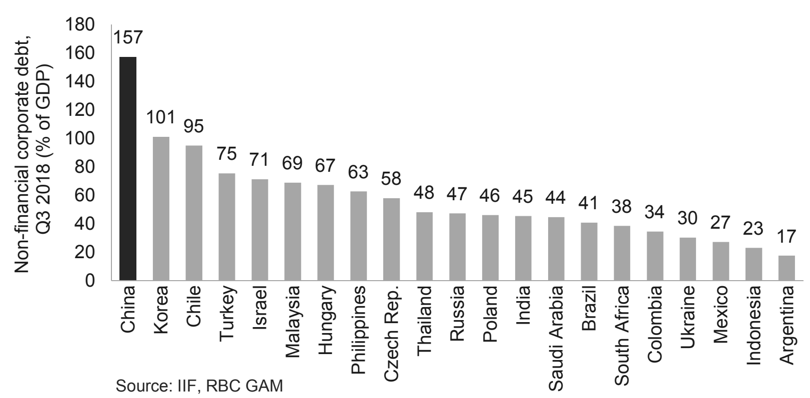


Exhibit 26: U.S. is late cycle and moving forward

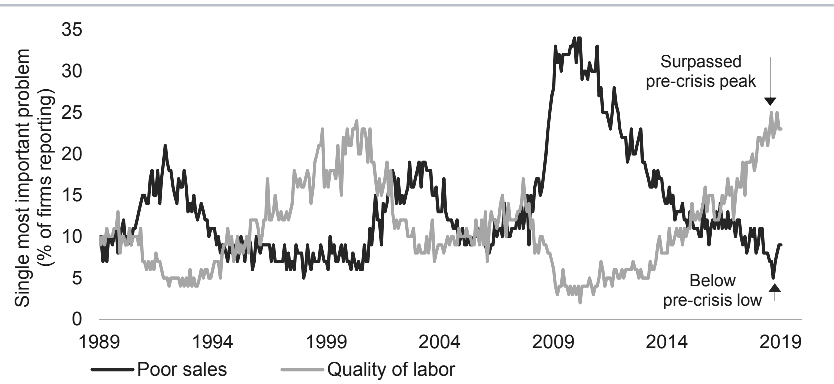
	Start of cycle	Early cycle	Mid cycle	Late cycle	End of cycle	Recession
Inventories						
Consumer durables						
Leverage						
Housing						
Equity profitability						
Prices						
Monetary policy						
Credit						
Business investment						
Bonds						
Economic trend						
Employment						
Equity direction						
Economic slack						
Volatility						
Sentiment						
Cycle age						
Votes for each stage of business cycle	0	1.5	6.5	14	9.5	0

Note: Dark shading indicates the most likely stage of business cycle (full weight); light shading indicates alternative interpretation (0.5 weight).
Source: RBC GAM

investment risk-taking should be abandoned altogether, but rather that it must be undertaken cautiously, as the risk-reward equation isn't as favourable as it was earlier in the cycle.

One of the more compelling endorsements of a late-cycle view is that the U.S. economy is now extremely tight (Exhibit 27). When asked to list their main problems, businesses rarely mention poor sales, and regularly complain about the quality of workers they are able to attract. This is relevant to the cycle in part because it is hard to

Exhibit 27: Economic conditions have improved substantially since financial crisis

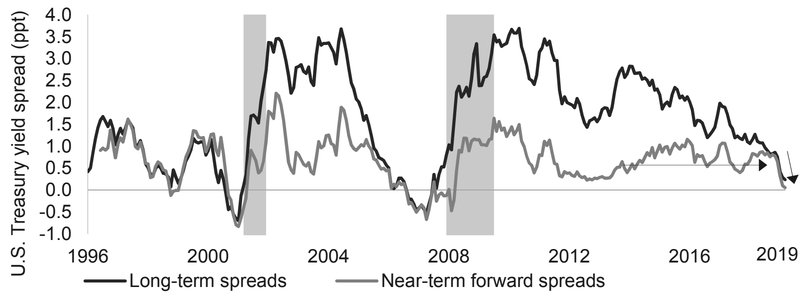


Note: As of Jan 2019. Source: NFIB Small Business Economic Survey, Haver Analytics, RBC GAM continue growing once economies start to bump up against their natural constraints, and in part because tight economies are prone to boiling over, triggering the end of the cycle.

In the credit space, auto-loan delinquencies have been rising for some time and are now fairly high, especially in sub-prime lending. Meanwhile, credit-card delinquencies are also rising. In fairness, mortgage delinquencies are still low and the broader household-debt environment is not overly worrisome, but little chinks in the armor are forming – a classic signal of an aging business cycle.

The yield curve provides a time-tested perspective on the business cycle. The fact that most yield-curve metrics have flattened profoundly over the past few years and now sit only marginally above zero is a clear indication of not just an advancing cycle, but an old one (Exhibit 28). Note, however, that these yield-curve measures have to invert outright before the recession signal is triggered, and even then, a recession usually does not happen until on average a year later.

Exhibit 28: Yield curve signals rising recession risk



Note: As of Feb 2019. Long-term spreads measured as 10-year U.S. Treasury yield minus 3-month Treasury yield. Near-term forward spread is forward rate of 3-month Treasury bill 6 quarters from now minus spot 3-month Treasury yield. Shaded area represents recession.
Source: Engstrom and Sharpe (2018). FEDS Notes. Washington: Board of Governors of the Federal Reserve System, Bloomberg, Haver Analytics, RBC GAM

Exhibit 29: U.S. growth scenarios for year ahead

Scenario for year ahead	Normal odds	Current odds	U.S. GDP growth
Bear	15%	40%	‹1.5%
Base	75%	50%	1.5% – 3.0%
Bull	10%	10%	›3.0%
Scenario-weighted growth	**2.10%**	**1.70%**	

Note: Bear scenario is not necessarily the same as recession. Probabilities are stylized.
Source: RBC GAM forecasts

The business cycle and the risk of a recession are intertwined concepts, with recessions representing the natural conclusion of the business cycle. Of the recession models we monitor, most acknowledge a rising recession risk, though with substantially different assessments of the precise likelihood. We assign a 35 percent chance of a 2019 recession, and slightly higher odds for 2020.

Assessing the risk of a downturn is crucial for a proper understanding of the path ahead. For instance, because the risk of a recession is higher than usual, our bear-case scenario receives a larger weight than normal. In turn, whereas our base-case forecast is for 2.25 percent U.S. growth in 2019, the full incorporation of bear- and bull-case scenarios yields a weighted outlook for merely 1.70 percent growth (Exhibit 29). This explains, in numbers, why aggressive investment risk-taking is ill advised at a late point in the cycle, even when the base-case forecast seems benign.

Inflation exhales

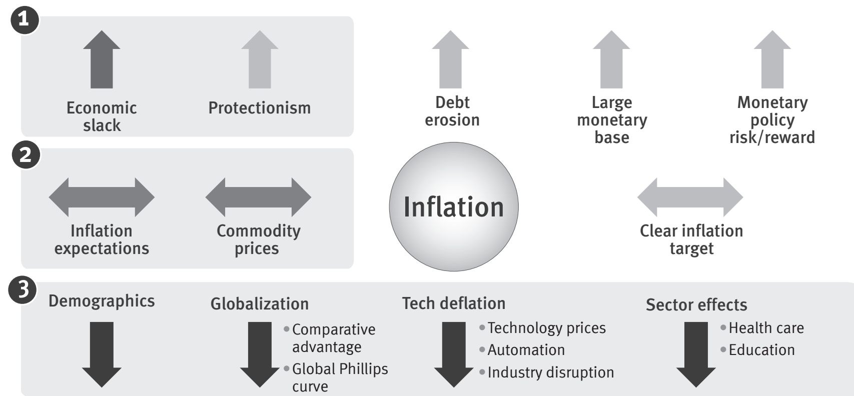
Headline inflation readings have exhaled recently, edging back below 2 percent in North America. This decline is largely the result of lower energy prices.

Inflation is unlikely to become a problem anytime soon, dampened as it is by structural depressants such as an aging population and technology-related deflation. Inflation expectations are also quite tame, adding to the case against any sudden resurgence pricing pressures. For the moment, commodity prices are also quiet.

That said, inflation isn't quite as sleepy as it first looks. Note, for instance, that core inflation readings – those stripped of volatile components like food and energy – tend to be somewhat higher, even operating above the 2 percent target in the U.S.

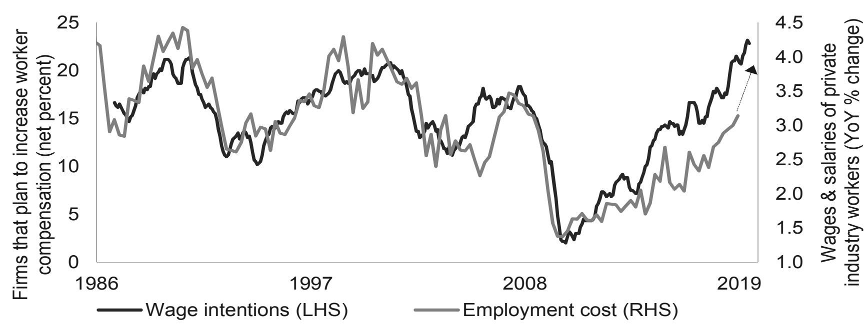
Weighing the various drivers of inflation (Exhibit 30), it is important to recognize that in addition to the aforementioned drags, there are two important arguments for higher inflation. The first relates to protectionism, because tariffs increase the cost of imported products.

Exhibit 30: Inflation barometer edging higher but still anchored



Source: RBC GAM

Exhibit 31: U.S. wages to continue to rise



Note: 6-month moving average of intention to raise wages in next 3 months (Jan 2019) in 6-month lead. Wages and salaries as of Q4 2018. Source: NFIB Small Business Economic Survey, BLS, Haver Analytics, RBC GAM

Second, and central to any inflation forecast, economic pressures clearly argue for more inflation. Wages have been picking up across much of the developed world, and the relevant leading indicator points higher (Exhibit 31). The connection between economic slack and wages may not be as powerful as it once was given the interconnectedness of the modern world, but there is clearly still a positive influence.

When combined with the fact that central banks now appear to be on the sidelines with what we believe is a greater focus on avoiding economic weakness as opposed to quelling any inflation strength, we budget for mostly above-consensus inflation readings in the years ahead (Exhibit 32). This is not to say that inflation will be uncomfortably high, but that it should be a little higher than normal.

Central banks to the sidelines

Central banks have pivoted to the sidelines over the past quarter in response to slowing growth, dimming inflation and extraordinary financial-market volatility.

Accordingly, market expectations for future monetary policy have shifted. Whereas investors had long been pricing in an ever-higher fed funds rate, the outlook has since retreated (Exhibit 33).

Looking forward, we believe developed-world central banks will remain on the sidelines in 2019.

This is mainly a function of economic developments, but also because we believe the neutral policy rate is toward the lower end of central banks' estimates. They simply don't need to go much further.

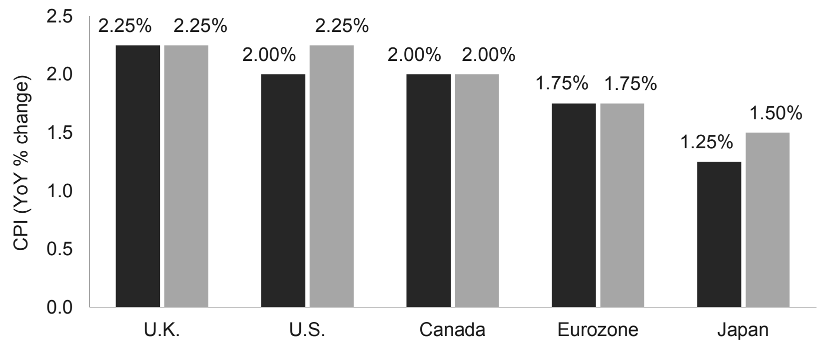
While inflation may edge a little higher, it is unlikely that central banks will be fazed as they are likely to prioritize growth maximization over inflation minimization. This is because tame inflation expectations make it unlikely that any bouts of higher inflation will become self-fulfilling, and because central banks are likely to be more tolerant of above-target inflation after a decade of below-average inflation readings.

A critical question now that central banks have become less hawkish is whether this pivot might manage to prolong the economic expansion. In the short run, fewer rate hikes should translate into faster economic growth. This, in turn, reduces the risk of undershooting the stall speed. That said, over a longer timeframe, faster growth also translates into a tighter economy, in turn potentially pulling forward the sorts of problems that classically herald the end of the cycle, including high inflation, declining labour quality, excessive risk-taking and lax credit standards. In other words, more dovish central banks reduce the risk of a recession over the next few quarters, but may increase the risk later.

Among the central banks that engaged in quantitative easing by printing money and buying bonds, only the Fed has done anything to put the process into reverse. It is now shedding US$50 billion of bonds per month, and has run its balance sheet down from a peak of US$4.5 trillion to $4.0 trillion today. This still leaves the Fed a long way from its US$800 billion pre-crisis starting point, but the combination of a larger economy and reduced bank leverage suggests that the eventual resting point for the balance sheet need not fall below about US$3.5 trillion. This means the Fed is already substantially through this journey, and could even be grinding to a halt in a year's time.

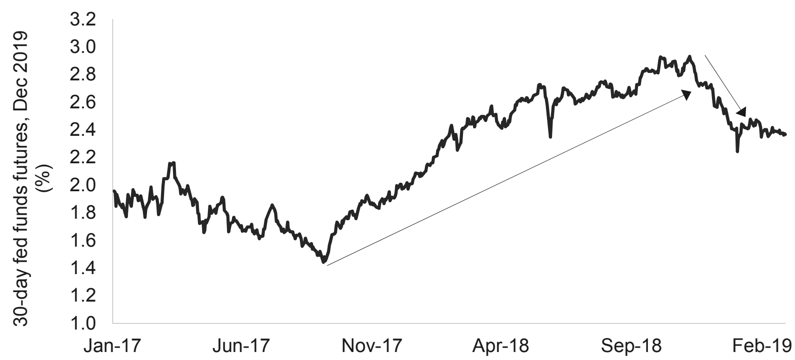
The European Central Bank (ECB) and the Bank of Japan (BOJ) find themselves in a challenging situation in that they have yet to remove even an ounce of monetary stimulus. Such removal now seems inappropriate given economic developments. This presents the worrying risk that they won't have much room to deliver

Exhibit 32: RBC GAM CPI forecast for developed markets



Source: RBC GAM

Exhibit 33: Bond market has repriced to remove rate hikes



Note: As of 2/28/2019. Source: Bloomberg, RBC GAM additional stimulus when this cycle eventually comes to a close.

U.S. advantage to shrink

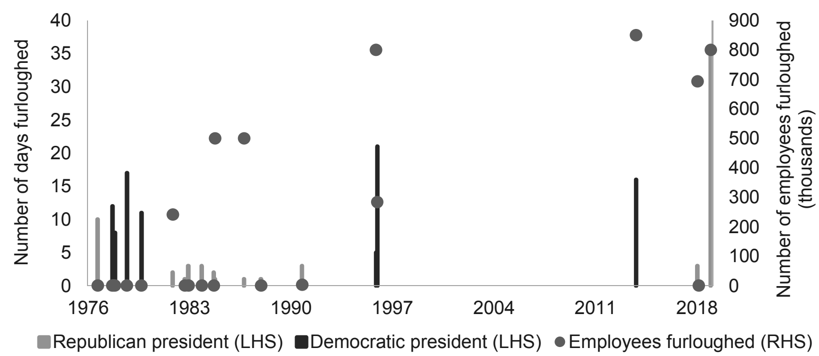
The U.S. economy benefited from major tax cuts in 2018, enjoying outsized growth and proving more resistant to the decelerating trend evident elsewhere.

However, since then, a number of factors indicate that the U.S. economy should begin to slow. These include the recent government shutdown, tighter financial conditions, evaporating fiscal stimulus and protectionism. These are already visible to some extent in the country's quarterly GDP prints, which have descended from a stellar 4.2 percent annualized in the second quarter of 2018 to a more moderate 2.6 percent at the end of the year.

A further headwind unique to the U.S. is the recent 35-day government shutdown (Exhibit 34). While shutdowns themselves are not unheard of, the length of this one was record-breaking, and the number of furloughed employees was high. All told, the economic damage is no more than 0.1 percent to 0.2 percent off the annual rate of economic growth, but it adds up.

The contentious shutdown also speaks volumes about the current political environment in Washington. With Democrats now controlling the House of Representatives, every decision will be a contentious one given Republican control of the Senate and White House. When the Mueller investigations into the Trump campaign are added, the coming two years are likely to alternate between bouts of paralysis and conflict (Exhibit 35).

Exhibit 34: Latest U.S. government shutdown was record-setting



Note: As of 1/31/2019. Source: Library of Congress, RBC GAM

Exhibit 35: A very different political environment in 2019–2020

Washington D.C.	Mueller investigation
• Democrats won House • Congress now divided • Difficult to legislate in 2019–2020	• Growing scope and intensity • Chance of lengthy Trump indictment/ impeachment • Hard to legislate during chaos

Paralysis: Tax cuts 2.0, immigration, infrastructure, health
Bigger battles: NAFTA approval, shutdown, Trump impeachment?
Unaffected: Tariffs, foreign policy, executive orders

Presidential election 2020: markets fret over populist right vs far-left scenario

Source: RBC GAM

The fiscal picture is also worsening. Tallying up the economic positives and negatives radiating from U.S. public policy, 2019 represents an important turning point (Exhibit 36). Whereas 2017 and 2018 enjoyed outsized economic growth due to a mix of deregulation (Exhibit 37), fiscal stimulus and a positive confidence shock, the story is now shifting as protectionism and curtailed immigration start to weigh. Having re-run the numbers after the government shutdown, we now calculate that 2019 will experience a slight net drag. The drag then grows in 2020.

Interest-rate-sensitive sectors such as the U.S. housing market are now understandably cooling, though the downside risk seems limited and borrowing costs are unlikely to rise much further from here (Exhibit 38).

Recognizing these various drags, we target a diminished and below-consensus 2.25 percent gain for the U.S. in 2019, followed by a slower 1.75 percent in 2020. These pale compared to the 2.9 percent GDP growth recorded in 2018.

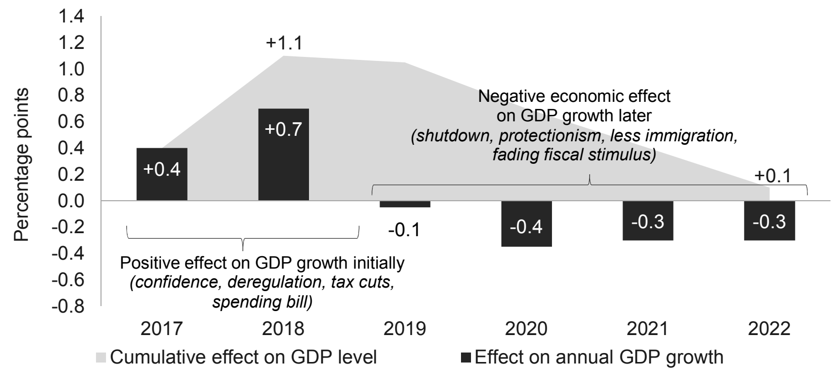
U.S. inflation should run in the vicinity of 2.00 percent in 2019, heating up slightly to 2.25 percent in 2020. This justifies the current fed funds rate, but should allow it to remain unchanged. From a currency perspective, the U.S. dollar is set to eke out only slight further gains against the Canadian dollar and pound over the next year, but also set to suffer losses versus the euro and yen.

Brexit saga continues

The U.K. discussion remains primarily a conversation about Brexit – the process of disentangling the country from the European Union (EU). March 29 is the official deadline for negotiating the exit, but it appears likely that the deadline will have to be extended to reach any kind of coherent conclusion.

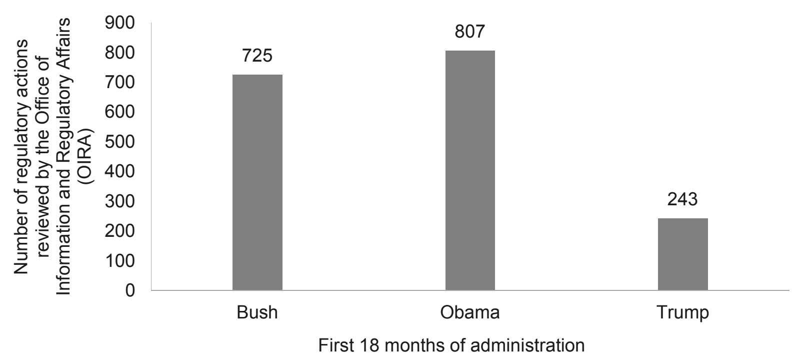
Many options remain, though the risk of an uncoordinated hard Brexit seems to be diminishing as the appetite for an extension increases and the untenability of certain

Exhibit 36: Effect of fiscal policies on U.S. GDP



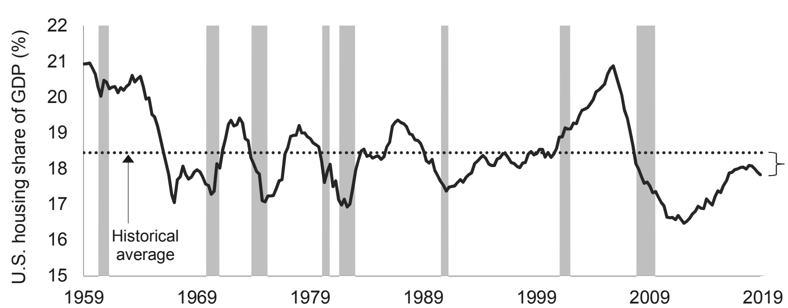
Source: RBC GAM assumptions and calculations

Exhibit 37: Declining regulatory actions under Trump



Note: As of 7/20/2018. Source: George Washington University Regulatory Studies Center, RBC GAM

Exhibit 38: U.S. housing never overheated, but is now cooling



Note: As of Q4 2018. Housing share of GDP calculated as residential investment, housing rent (both actual and imputed for home owners), maintenance and repair of dwellings, utilities, plus half of furniture, textiles, appliances & equipment for house and garden, household utensils and supplies. Historical average from 1959 to present. Shaded area represents recession. Source: Haver Analytics, RBC GAM views become apparent. As such, our assessment of the odds of a customs union outcome – the highest probability scenario – has gone up somewhat (Exhibit 39).

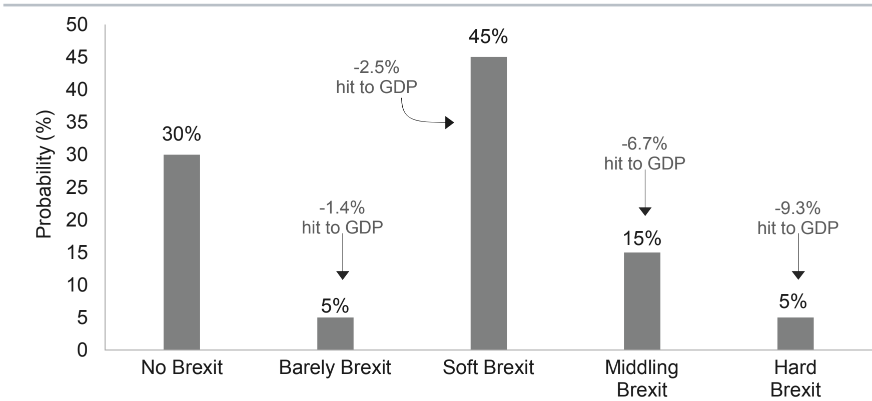
Of course, even as the risk of particularly bad Brexit scenarios shrink, these outcomes impose some amount of economic damage on the British economy. The sheer uncertainty over the past few years means that even a "No Brexit" outcome will have hurt growth in the interim, as demonstrated by soft business investment activity in the U.K. (Exhibit 40). Housing has also suffered to some extent.

Accordingly, the Bank of England seems unlikely to deliver any more rate increases and could even contemplate cuts should Brexit go poorly. We forecast U.K. growth of just 1.25 percent for both 2019 and 2020, below-consensus readings that reflect the additional drag from Brexit and uninspired demand from the Eurozone. Inflation should remain in the vicinity of 2.25 percent for each of the next two years.

Eurozone sags

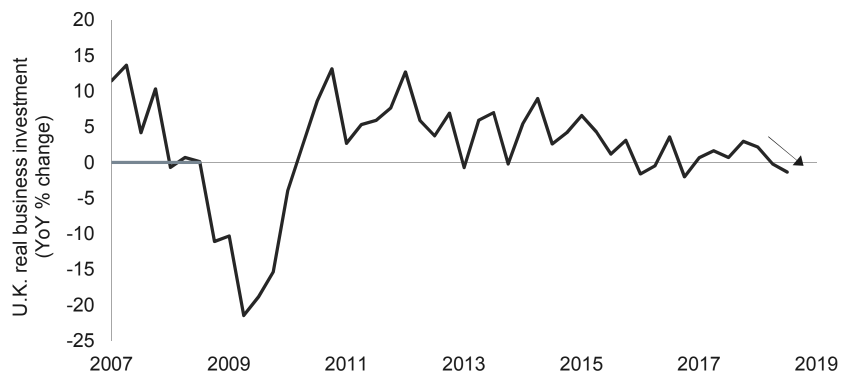
Global growth has slowed, but far from uniformly. The U.S. economy has proven more resilient than most, while the Eurozone has been on the less desirable side of the scale (Exhibit 41). On the surface, this difference is curious. Although Europe grapples with protectionism and tighter financial conditions, neither exerts as negative an impact as on the U.S. Furthermore, Europe

Exhibit 39: Brexit probabilities and implications



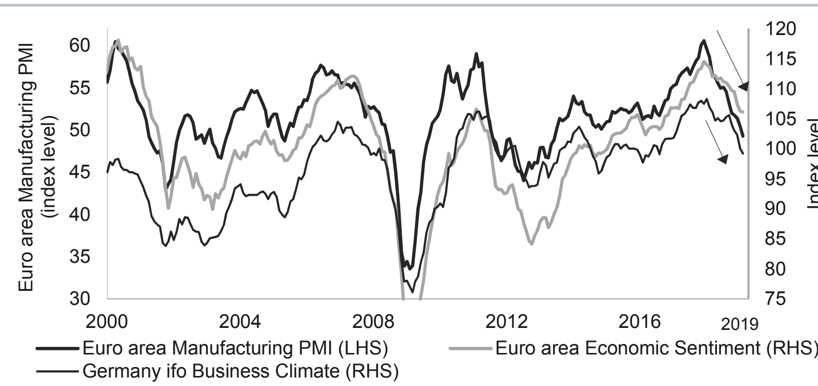
Source: U.K. Government, RBC GAM

Exhibit 40: U.K. business investment now retreating outright



Note: As of Q3 2018. Source: U.K. Office for National Statistics, Macrobond, RBC GAM

Exhibit 41: Eurozone growth weakens further



Note: As of Feb 2019. Source: European Commission, ifo Institute, Haver Analytics, RBC GAM isn't set to experience any notable fiscal drag, in contrast to the U.S.

The answer to this mystery may lie in several other areas. The Eurozone is closely connected to China via trade, making the Chinese slowdown particularly problematic. Similarly, the Eurozone continues to suffer more than its fair share of political issues: Italy's populist government remains a deterrent to economic and political stability, France has been crippled by weekly Yellow Vest protests and even Germany's economy recently stumbled. To the extent populism has not yet obviously peaked, this challenge may persist.

We forecast below-consensus growth of 1.25 percent for the Eurozone in both 2019 and 2020. While this is in line with the U.K., the fact that the Eurozone's potential growth rate is the lower of the two means that the pace is merely underwhelming for Europe versus objectively poor for the U.K.

With Italy now in technical recession (two consecutive quarters of economic shrinkage) and continent-wide growth slowing, the ECB seems unlikely to deliver on any rate hikes in 2019, despite having mulled the possibility not long ago. Eurozone inflation should hover in the 1.75 percent range, keeping pressure off the central bank. We forecast a slightly stronger euro, less because of any macroeconomic optimism, and more because of technical considerations around the broader dollar cycle, plus supports such as a large Eurozone current-account surplus.

Japan girds for tax hike

The Japanese economy has also been slowing, tracking 0.8 percent growth in 2018 after recording more than double that amount the year before. But this rate of expansion is not a bad outcome for a country whose demographics are as poor as Japan's and it is arguably moderately above the country's long-term potential growth rate.

We figure Japanese growth can remain in the vicinity of 1.00 percent for 2019 as well, supported by a raft of structural reforms relating to corporate governance, trade and the labour market. The Tankan survey continues to point to good growth. However, the slowing Chinese and U.S. economies – both important trading partners – impose a limit on Japanese growth, particularly as the U.S. turns its protectionist bazooka toward Japan's all-important auto sector.

For 2020, Japanese growth is forecast to land significantly below the 2019 rate, with a mere 0.50 percent expansion. This deceleration is partly a function of the anticipated global trend, and partly because Japan is scheduled to implement a sales-tax hike in late 2019 that will impede the appetite for spending.

The sales tax increase should also boost inflation, elevating this to 1.25 percent by the end of 2019 and 1.50 percent in 2020. These are heady numbers by Japanese standards, but seem achievable based on the multiyear trend, a scintillatingly low unemployment rate and rising wages.

Despite the prospect of rising inflation, the BOJ is unlikely to raise rates in 2019. It wants a sustained 2 percent inflation rate, and seemingly won't be tempted to pare stimulus until that aim is met. We budget for a stronger yen over the coming year, mostly for valuation reasons.

Emerging markets face less challenging 2019

Emerging markets are a crucial and expanding part of the global growth story, now generating more than half of global output and a striking 71 percent of global growth (Exhibit 42). China, discussed earlier, represents a large fraction of this contribution.

Emerging-market economies suffered an onslaught of five macroeconomic challenges in 2018, collectively depressing their economic performance (refer again to Exhibit 2):

- Global growth slowed, exerting a drag on the foreign demand of all nations.
- Protectionism is especially problematic for emerging-market economies as they tend to be trade-oriented.

- The Chinese slowdown was problematic, in part because China is itself an emerging-market economy, but also because China serves as an engine of demand for the rest of the EM space.
- The strong U.S. dollar of 2018 was problematic for emerging markets because it encourages capital outflows and because they frequently borrow in dollars.
- Rising central bank rates (and rising yields more generally) across much of 2018 made debt more expensive for emerging-market nations.

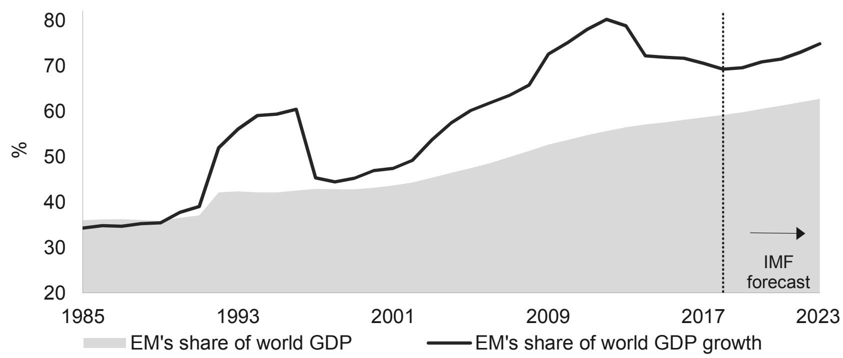
Looking ahead, at least some of those challenges should disappear (Exhibit 43). The Chinese economy may start to stabilize over the second half of the year. We don't look for any further U.S. dollar strength – particularly versus emerging-market currencies – and interest rates have already largely completed their upward journey.

This doesn't quite add up to faster growth, but it should limit any further deceleration. In contrast to 5.50 percent growth in 2018, we look for 5.25 percent growth in 2019 and 5.00 percent in 2020. Of course, all of these figures are substantially in excess of the global growth rate of 3.50 percent in 2019 and 3.25 percent in 2020.

At the national level, India appears set to retain its mantle as the fastest-growing of the major emerging-market economies, although its recent conflict with Pakistan is worrying, and India's reform-oriented prime minister could be weakened in the upcoming elections this spring.

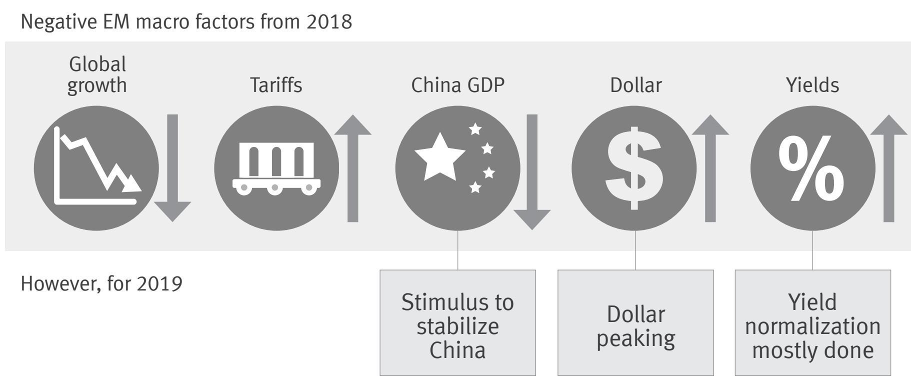
Whereas several of our emerging-market growth forecasts are below the consensus – in keeping with our broader views – Brazil represents an exception. The country's pattern of poor public-policy choices seems capable of being broken by the recent election of a pro-business, reform-oriented government.

Exhibit 42: Emerging markets generate the bulk of global growth



Note: Emerging markets (EM) PPP-based nominal GDP and 5-year average GDP growth used in calculations. Source: IMF, Haver Analytics, RBC GAM

Exhibit 43: Emerging-market challenges significant, but may fade



Source: RBC GAM

Four Canadian challenges

The Canadian economy wafted along in the slipstream of strong U.S. growth in 2017 and 2018, but has lately begun to slow. The country's latest quarterly GDP print was barely positive, and our own leading indicator has clearly decelerated (Exhibit 44).

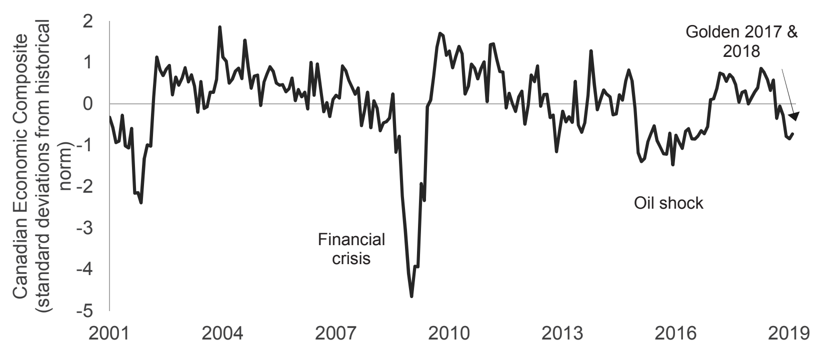
Looking to the future, we identify four key macroeconomic challenges for the Canadian economy (Exhibit 45). These are slowing U.S. growth, a weakening domestic housing market, poor competitiveness versus the U.S. and a challenging domestic environment for the production and transport of crude oil.

We forecast slower U.S. growth over the next few years, and one of the most reliable predictors of the Canadian economy is the U.S. performance.

Canada's economy enjoyed a subtle but sustained boost from housing over the past 15 years, but that is now evaporating. As a result of higher borrowing costs and tougher housing rules, household-credit growth has slowed to its weakest rate in several cycles (Exhibit 46). Existing home sales are down sharply in major markets and home prices are rising only modestly at the national level (Exhibit 47). In Vancouver – until recently the hottest real estate market in the country – prices and resale activity continue to decline. We don't forecast an outright housing bust at the national level, but what was once a boost to growth may be morphing into a modest drag.

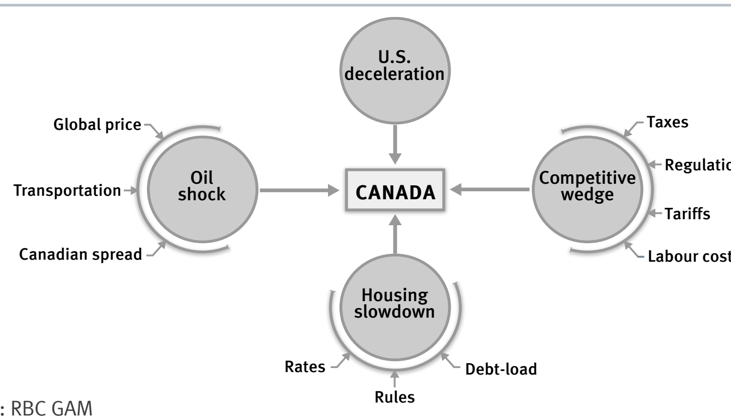
Canadian competitiveness has been a source of concern for some time given various competitive wedges that have opened up between the U.S. and Canada with regard to taxation, the regulatory burden and labour laws, among others (Exhibit 48). This remains a key concern,

Exhibit 44: Canada to face stiff headwinds in 2019



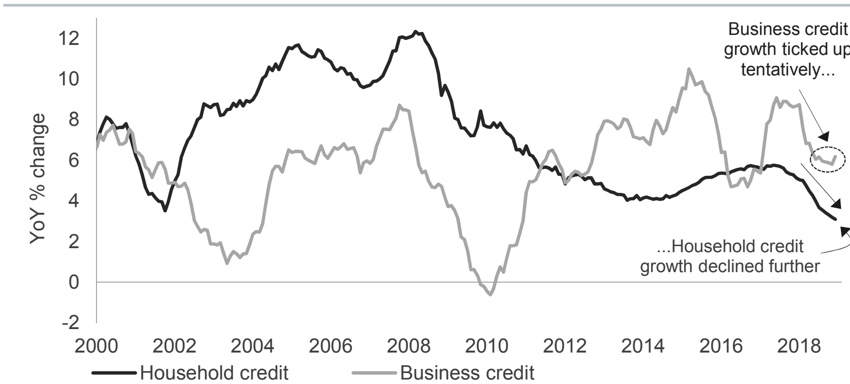
Note: As of Feb 2019. Composite constructed using four leading indicators from surveys on Canadian businesses. Source: CFIB, Haver Analytics, RBC GAM

Exhibit 45: Canadian macro challenges



Source: RBC GAM

Exhibit 46: Canadian household and business credit growth slowed



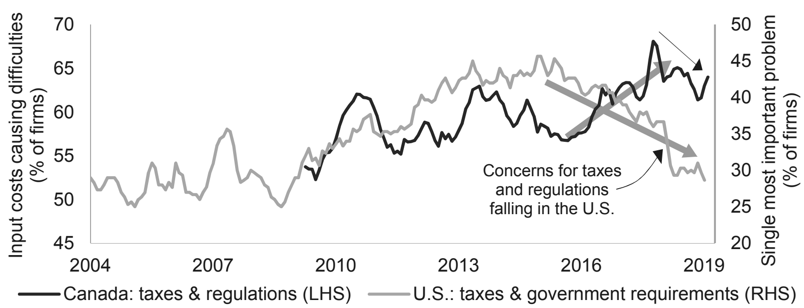
Note: As of Dec 2018. Source: Bank of Canada, Haver Analytics, RBC GAM

Exhibit 47: Canadian housing has weakened

	Canada		Toronto		Vancouver	
	Level	Momentum	Level	Momentum	Level	Momentum
Housing starts (# of units)	Strong	Neutral	Strong	Neutral	Medium	Positive
Existing sales (# of units)	Weak	Negative	Weak	Neutral	Weak	Negative
Home prices (% growth)	Weak	Negative	Weak	Neutral	Weak	Negative

Note: As at Feb 8, 2018. Housing starts refer to number of units started, existing sales represent number of existing units sold, home prices measured as MLS Home Price Index growth rate. Momentum evaluated as 6-month rate of change of the variable used in the level series (home price momentum also considered 1-month and 3-month price acceleration/deceleration). Source: Haver Analytics, RBC GAM

Exhibit 48: Burden of taxes and regulations eased in Canada



Note: 3-month average of % of firms that identified taxes and regulations as input costs that are causing difficulties for Canadian businesses (Feb 2019) and government requirements and taxes as single most important problem for U.S. businesses (Jan 2019). Source: CFIB Business Barometer Survey, NFIB Small Business Economic Survey, Haver Analytics, RBC GAM

though the federal government has begun to partially course-correct via the successful negotiation of the USMCA trade deal, the promise of accelerated business depreciation measures and its recent support of an oil pipeline project.

Last among the four Canadian challenges, Canada's energy sector continues to struggle. The situation is not as dire as it was last fall, thanks to a rebound in global oil prices and a welcome narrowing of the Alberta oil discount, but it is still a precarious environment. Oil production can likely continue at a high level, but the environment is still not attractive to expansion until more transportation capacity is secured. One such pipeline seems likely, while another – the Trans Mountain Pipeline now owned by the federal government – is inching forward. The environment should thus improve in a year or two, but for now it remains a source of economic softness. Fortunately, this damage should be smaller than during the oil-price plunge of 2015—2016, in part because oil prices spent less time at rock-bottom levels, and in part because there is simply very little in the way of capital expenditures left to cancel.

Globally, we look for roughly sideways oil prices over the next year. Exerting upward pressure, global growth continues, OPEC has cut output and this late point in the business cycle is classically a time when commodity prices rise. But U.S. shale oil is expanding and only appears to require US$50 to US$60 per barrel to motivate additional production, pushing oil inventories higher once again and putting a cap on how high oil prices can sustainably rise (Exhibit 49).

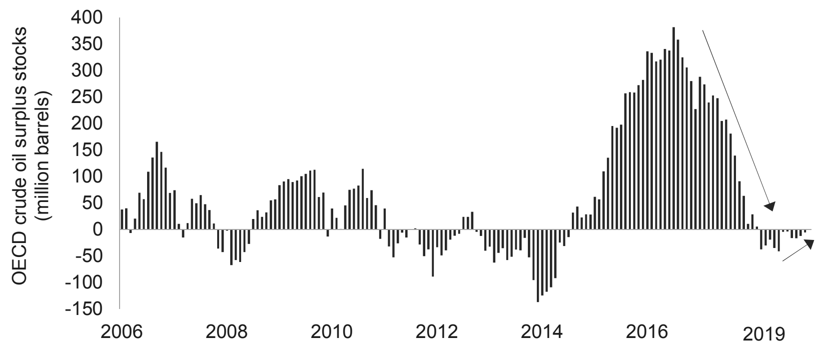
All told, we figure the Canadian economy will decelerate to 1.5 percent growth in each of 2019 and 2020. This is slower than the U.S., but faster than the U.K., Eurozone or Japan. Inflation should hover in the range of 2.0 percent, and the Bank of Canada appears content to remain on the sidelines as these various challenges play out. The Canadian dollar may dip slightly versus the greenback, but the bottoming/peaking process is arguably already underway.

Government bond yields fall amid slower growth and dovish central banks

Global sovereign-bond yields declined in all major regions in the past quarter, reflecting a downshift in growth expectations, slightly lower inflation and, perhaps most importantly, the fact that central banks are no longer actively tightening. Yields on 10-year government bonds in Germany and Japan fell to their lowest levels since 2016, with the latter moving back into negative territory. In the U.S., 10-year Treasury yields have fallen more than 50 basis points from their 2018 high and are now slightly below our modelled estimate of equilibrium. A degree of vulnerability is creeping back into the sovereign-bond market, as yields are now below our estimates of equilibrium in all major regions, particularly in markets outside North America (page 42).

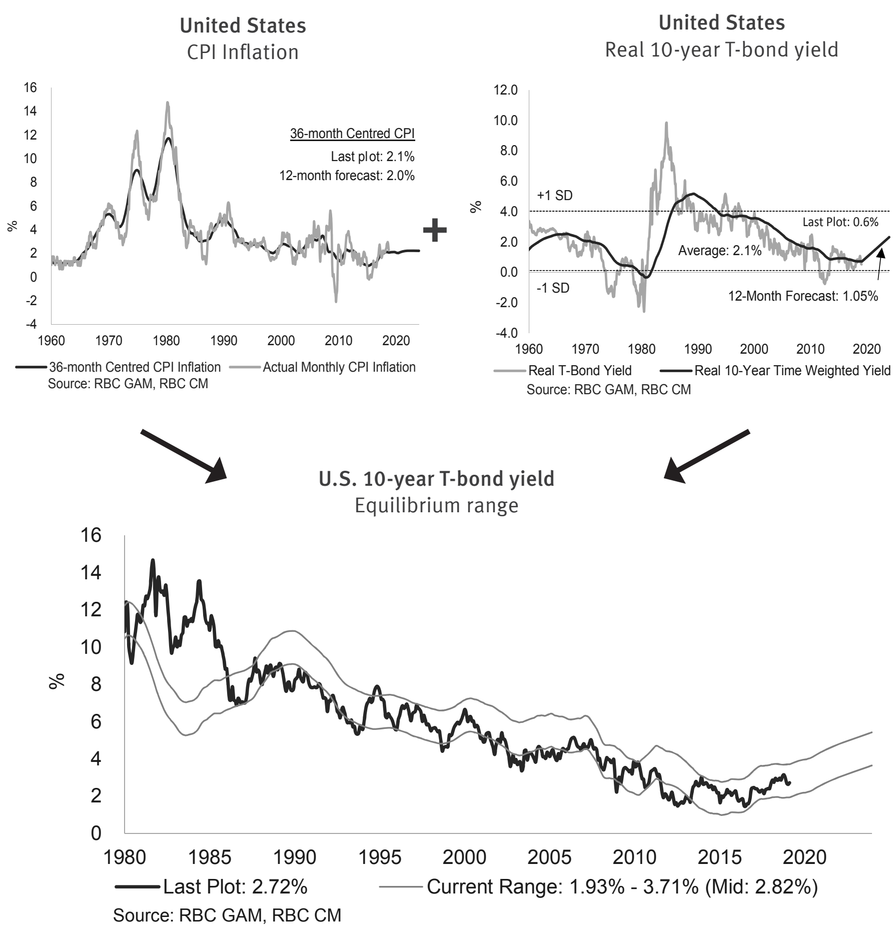
A closer look at our U.S. 10-year bond model shows that yields are slightly below equilibrium due to declining real interest rates. Exhibit 50 splits the model into its components of an inflation premium and a real yield. The inflation premium captured in the bond model has barely moved in recent months and forecasts don't look for much change in this part of the equation over the next several years. Real yields, however, have declined more than 50 basis points since October and are slightly below our modelled estimate based on a time-weighted trailing average

Exhibit 49: Global oil inventories back to normal, but rising



Note: As of Jan 2019. OECD commercial crude oil inventory less 5-year average of commercial stocks. Source: EIA, RBC GAM

Exhibit 50: U.S. 10-year bond yield
Fair-value estimate composition

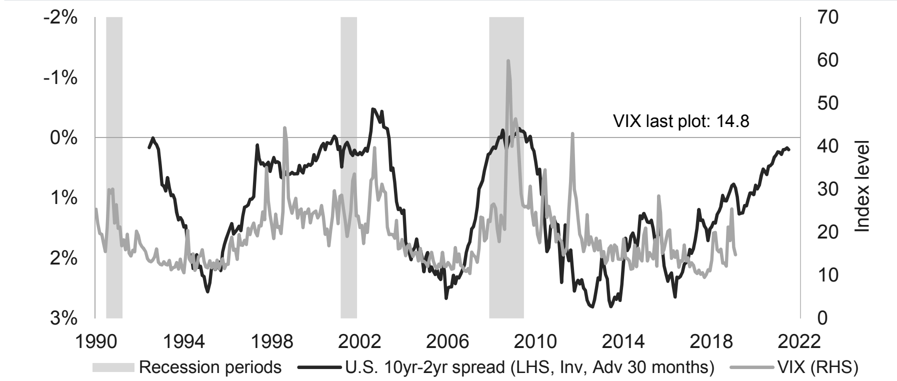


that places greater emphasis on recent history. Due to this adaptive-expectations approach, there is a gradual upward bias in real interest rates in the model as the impact of the financial crisis fades. Looking ahead, our model assumes that real interest rates will ultimately revert to their 40-year average in five years' time. We recognize, however, that slowing economic growth could limit increases in the near term, and our 1-year forecast calls for a slight decline in the 10-year U.S. bond yield to 2.50%.

Volatility picks up and likely persists

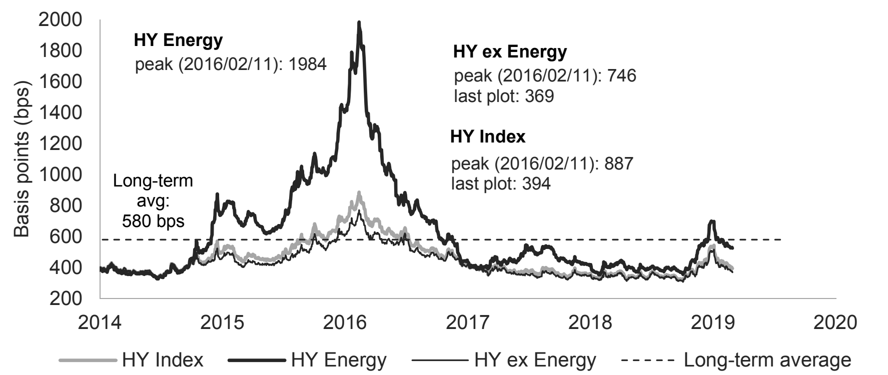
Financial markets underwent significant fluctuations during the past quarter and, although risk assets have calmed in early 2019, the flattening yield curve suggests more volatility may lie ahead. Exhibit 51 plots the CBOE Volatility Index (VIX) alongside the slope of the U.S. yield curve, which has been flipped on the chart and advanced by 30 months. The flattening in the yield curve since 2015 hinted that volatility would rise nearly three years later. The VIX soared as predicted in late 2018 and we have also seen bouts of stress in credit markets (Exhibit 52). The VIX and credit spreads both declined during the recent rally, but they remain above the levels seen prior to last year's correction. As mentioned earlier in this article, inverted yield curves typically precede recessions by an average of one year and, while the curve is not yet inverted, the flattening that has occurred suggests we are closer to the end of the economic cycle and a period of greater economic uncertainty. For these reasons, investors should be prepared to encounter more volatility going forward.

Exhibit 51: U.S. yield curve vs. VIX volatility



Source: Bloomberg, RBC GAM

Exhibit 52: BofAML U.S. High Yield Master II Index
Government option adjusted spread



Source: BofAML, RBC GAM

Stock slump boosted return potential

The broad-based sell-off in stocks last year moved equities to especially attractive valuations, which set up the preconditions for the subsequent rally. All of the major market indexes that we track fell below their modelled estimates of fair value in 2018 (page 43). As of December, our composite of global market valuations had fallen to its lowest level in seven years (Exhibit 53). While U.S. equities appeared attractive on this basis, non-U.S. markets were even more heavily discounted. The MSCI Emerging

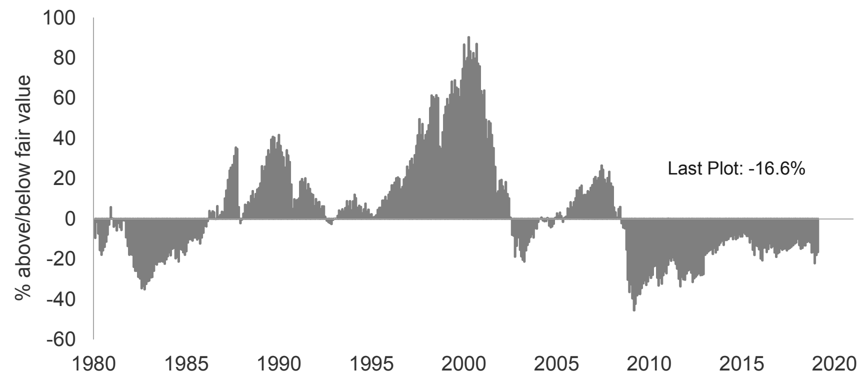
Markets Index was the hardest hit amid protectionism and a strengthening U.S. dollar, falling as much as 26 percent from its January peak and bottoming in October while other markets continued to slide. U.S. equities, which were resilient for much of the year, joined the sell-off in the fourth quarter, plunging 15 percent in December.

While a number of concerns surrounding slowing economic growth remain, progress on a U.S./China trade deal and a pivot by central banks to a more dovish stance triggered a market turnaround in early 2019. The S&P 500 Index, for example, rallied 20 percent from its December low and ended the quarter with a slight gain. In fact, most major markets posted slight increases for the three-month period ended February 28, 2019 as the violent sell-off was followed by a solid rebound.

Stocks have historically delivered higher and more consistent returns when starting from a point of depressed valuations. Exhibit 54 plots a standardized version of our S&P 500 fair-value model. Fair value is represented as the dotted line running down the centre of the chart and the solid lines are one standard deviation above and below. We separated the chart into four zones and computed return statistics based on which bucket the S&P 500 started from. Last year's correction pulled the S&P 500 Index into 'Bucket 2,' which is bound by fair value and one standard deviation below fair value, from 'Bucket 3,' which is between fair value and one standard deviation above equilibrium. When starting in 'Bucket 2,' stocks have delivered the second-highest annual returns (12.1 percent), the highest frequency of positive returns (83.9 percent) and lowest standard deviation (13.9 percent) (Exhibit 55). Interestingly, the S&P 500 has spent most its time in the past decade's bull market in 'Bucket 2,' which is consistent with the solid performance that we have seen in stocks. The S&P 500 briefly entered 'Bucket 3' on several occasions, most recently in the summer of 2018, but following the latest correction have re-entered the zone historically indicating attractive returns.

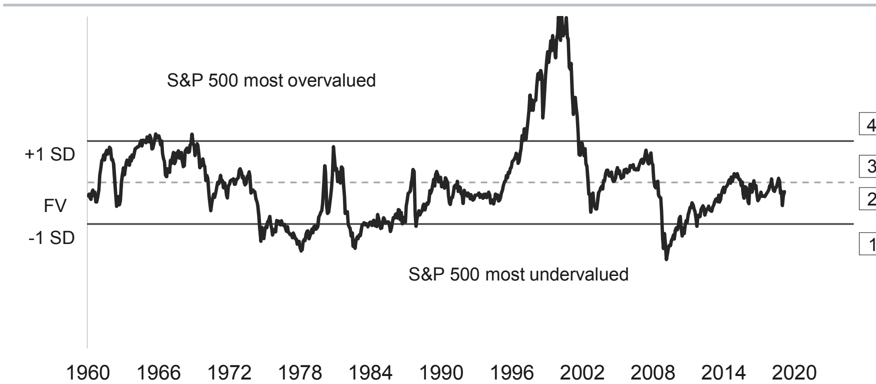
Valuations can be a good source of returns when starting from discounted levels but, as stock

Exhibit 53: Global stock market composite
Equity market indexes relative to equilibrium



Source: RBC GAM

Exhibit 54: Standardized S&P 500 fair value bands



Source: Haver Analytics, RBC GAM

prices rise, they will become more dependent on earnings to sustain a rally. Corporate-profit growth is expected to slow in 2019 following the more-than-20 percent gains seen last year. Earnings were buoyed in 2018 by the strong economy and last year's corporate-tax cuts, which combined to push profits above their long-term trend (Exhibit 56). Looking forward, however, the profit outlook for 2019 will be less rosy in light of slowing economic growth, the absence of another round of tax cuts and the negative impact of rising costs on profit margins. Analysts expect earnings to contract in the first quarter, but the decline in profits is forecast to be brief and the consensus view is that growth will re-accelerate into the end of the year (Exhibit 57). After extensive downgrades last year, there are signs suggesting earnings expectations are stabilizing, as evidenced by Citigroup's U.S. equity earnings revision index (Exhibit 58).

Scenario analysis reveals reasonable upside potential for stocks

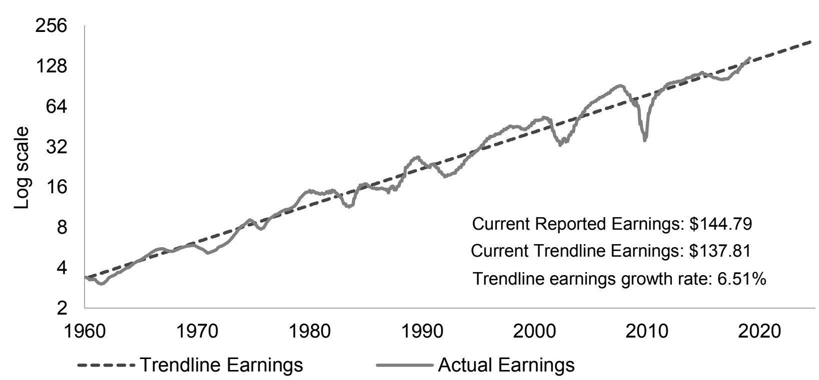
As long as earnings meet analysts' expectations, stocks can continue to deliver decent gains from current levels. Exhibit 59 plots a variety of scenarios for the S&P 500 based on combinations of earnings levels and price-to-earnings multiples (P/E). Our multi-factor model suggests 18.9 is an appropriate, or equilibrium, P/E given current and expected interest rates, inflation and corporate

Exhibit 55: S&P 500 Index
Return prospects by valuation zone

Valuation	Data set (Bucket)	1-year average return	Batting average^	1-year average return in win*	Max loss	1-year return Std. dev.
(S&P 500 most overvalued)	4	(0.3%)	50.7%	14.7%	(27.5%)	16.9%
1 SD Above	3	3.5%	62.3%	13.0%	(41.4%)	15.6%
Equilibrium	2	12.1%	83.9%	16.0%	(44.8%)	13.5%
1 SD Below (S&P 500 most undervalued)	1	14.7%	80.2%	19.9%	(12.8%)	16.3%

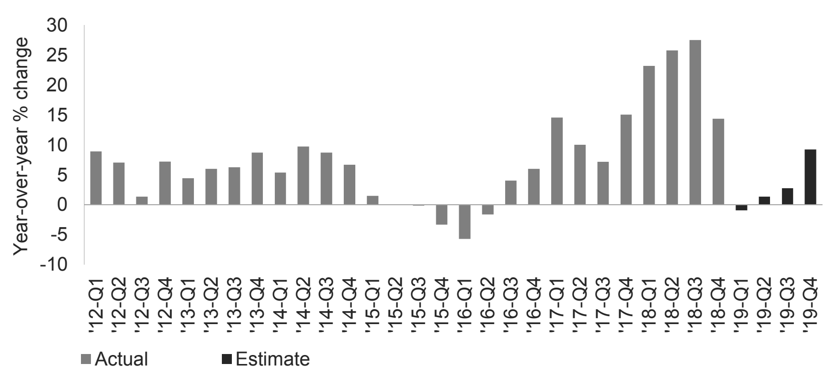
*Win = Periods where returns are above 0%. ^Batting average = Incidence of winning in any given period. Source: RBC GAM

Exhibit 56: S&P 500 earnings comparison



Source: RBC GAM, RBC Capital Markets

Exhibit 57: S&P 500 Index earnings per share
Quarterly earnings % change from same quarter in prior year



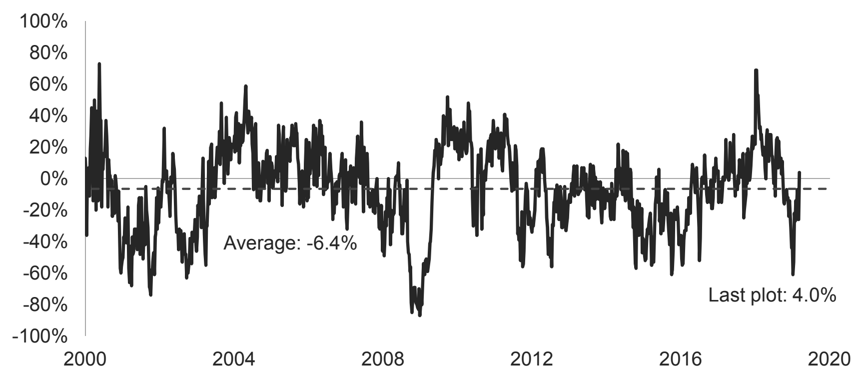
Source: Thomson Reuters, RBC GAM

profitability. Should the S&P 500 Index trade at the equilibrium P/E and generate earnings of US$167 per share in 2019, as the consensus of bottom-up estimates suggests, the index would reach 3,155 by the end of the year. Such an increase would represent a total return of roughly 15 percent from the close on February 28, 2019. Applying the same math to 2020 places the S&P 500 at 3,508 by the end of next year, which is 26 percent higher than it is today! We recognize that corporate profits face reasonably stiff headwinds this year, but should the earnings outlook stabilize against a backdrop of steady economic growth, tame inflation and accommodative monetary policy, there is plenty of room for stocks to move up.

Small caps and economically-sensitive sectors lead 2019 advance

Stocks have had a good run since their December lows and underlying style and sector movements suggest the rally can persist. Small- and mid-cap stocks in the U.S. have outperformed since the December 24 low, almost mirroring their underperformance after the September 20 top (Exhibit 60). Smaller-capitalization stocks are generally more sensitive to changes in economic momentum, so the fact that they are outperforming is a positive sign. According to the same chart, the relative performance of value versus growth is not as compelling but, after years of value

Exhibit 58: U.S. equities
Percentage of companies with upward earnings revisions



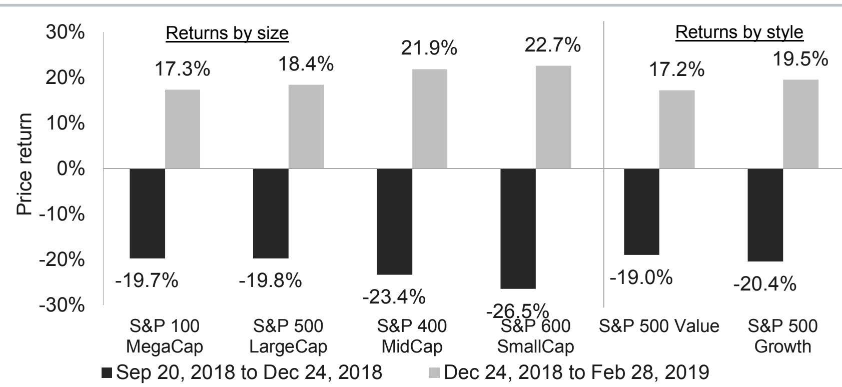
Source: Citi, RBC GAM

Exhibit 59: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500 Index

		Consensus			
		2019 Top down	2019 Bottom up	2020 Top down	2020 Bottom up
	P/E	$171.8	$167.0	$188.1	$185.7
+1 Standard Deviation	23.2	3978.9	3867.0	4356.4	4300.4
+0.5 Standard Deviation	21.0	3612.4	3510.8	3955.1	3904.2
Equilibrium	18.9	3245.9	3154.6	3553.8	3508.1
-0.5 Standard Deviation	16.8	2879.4	2798.4	3152.6	3112.0
-1 Standard Deviation	14.6	2512.8	2442.2	2751.3	2715.9

Source: RBC GAM

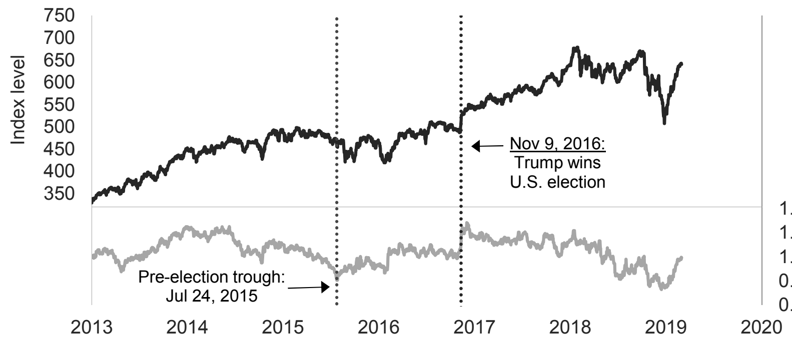
Exhibit 60: U.S. stock market indices
Price return in late-2018 correction and subsequent rebound



Source: Bloomberg, RBC GAM

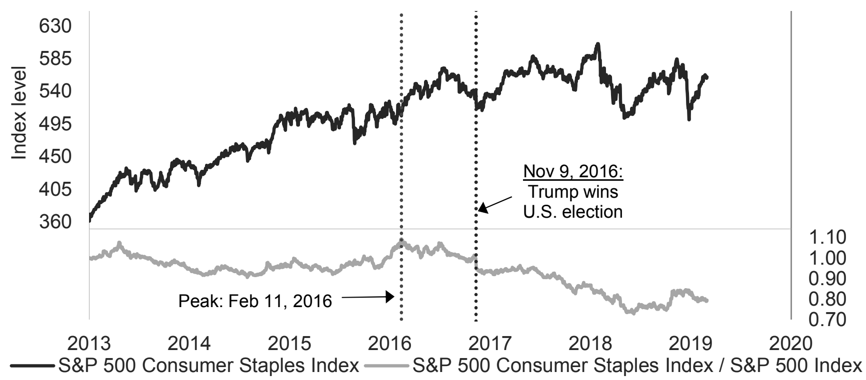
underperformance relative to growth, the fact that value is holding up relative to growth is constructive. Within sectors, we are seeing economically-sensitive segments of the market gaining leadership. Since December, Industrials have outperformed, while defensive sectors such as Consumer staples have lagged (exhibits 61 and 62). A continuation of these trends would be a signal that investors expect a re-acceleration in economic growth.

Exhibit 61: S&P 500 Industrials Index
Index level and relative strength



Source: Bloomberg, RBC GAM

Exhibit 62: S&P 500 Consumer Staples Index
Index level and relative strength



Source: Bloomberg, RBC GAM

Asset mix – maintaining slight overweight in equities as economy progresses at a slower pace

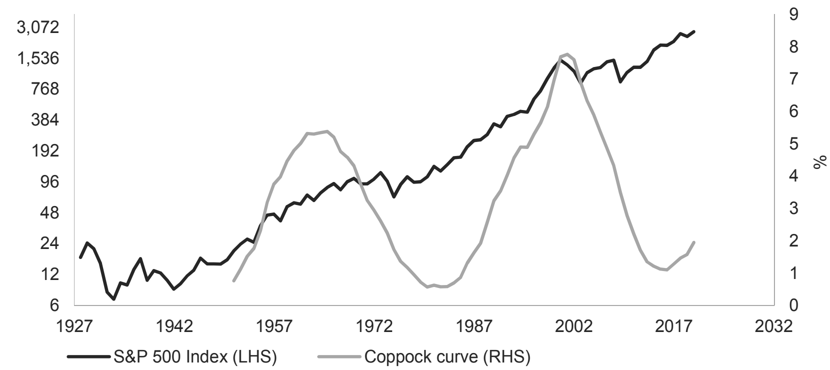
The global economy is moderating after a period of rapid advance in 2017 and 2018, as headwinds from protectionism, fading fiscal stimulus and tighter financial conditions weigh the economy. But the degree of expected deceleration in growth is quite mild and our base case has economies continuing to expand in all major regions. The major risks with respect to geopolitics and central-bank policy are constantly evolving and the largest of these (i.e. U.S./China trade and rising interest rates) appear to have diminished since the start of the year. We look for economic growth to slow mildly in 2019 and again in 2020, down to rates that remain decent by post-crisis standards. That said, we recognize that downside risks are greater than they have been given our assessment that the business cycle is in its latter stages.

In this environment, central banks probably won't raise interest rates and bond yields are unlikely to rise in the near term. We have lowered our forecasts for sovereign bond yields over the year ahead, which suggests that bond investors are more likely to keep their coupon as there will be less of a headwind from rising interest rates. Should the economy downshift, bonds would provide cushion in a balanced portfolio. For these reasons, we are maintaining smaller underweights in fixed income than we have at previous points in the cycle. Looking further out, though, we continue to believe that yields are unsustainably low and, as real rates eventually recover to their long-term norms, rising yields will pose a challenge for bond investors. Sovereign-bond returns are likely to be low for a very long time and this is why we have maintained an underweight position.

Long-term price momentum helps place the current bull market for stocks in perspective. Following nearly a decade of poor returns resulting from the Tech Wreck and the global financial crisis, stocks appear to have entered a new supercycle bull market at the end of 2016 based on our long-term price momentum indicator (Exhibit 63). These secular regimes can last decades, and they can have significant impacts on intermediate-term movements. The average rally within secular bull phases is much larger in magnitude and longer in duration than rallies in secular bear markets (Exhibit 64). Moreover, corrections in supercycle bulls tend to be shorter in duration and shallower compared with declines in supercycle bears. The average correction in a secular bull market is 18 percent and spans 11 months, consistent with the declines experienced by most major markets in 2018. Based on this analysis and the assumption that stocks are truly in a secular bull regime, it's possible that a "normal" correction/consolidation move was completed late last year, setting markets up for another round of gains.

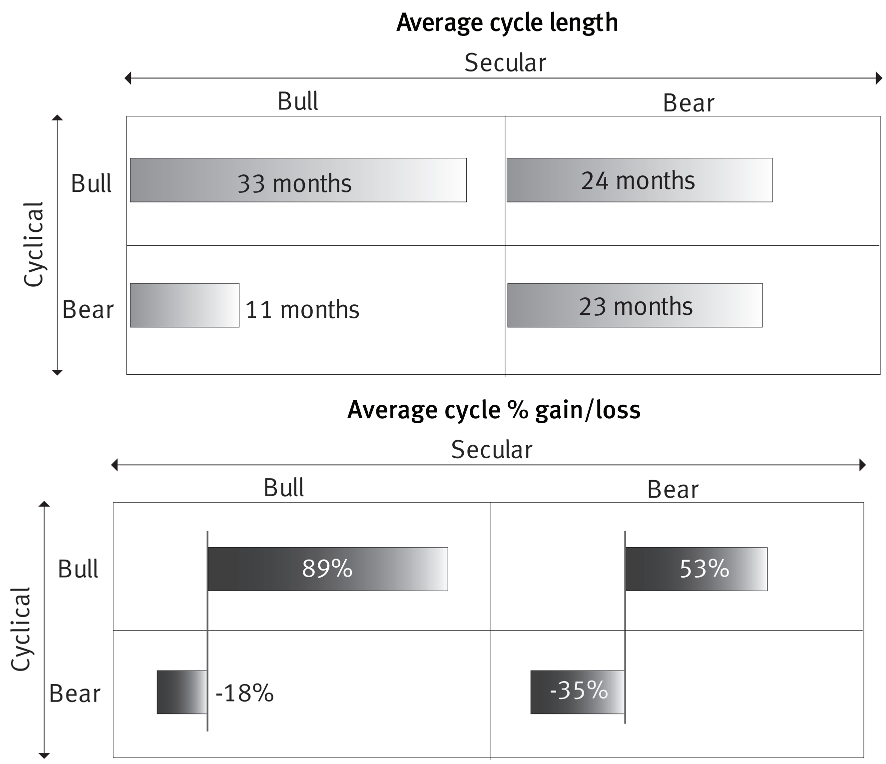
Given the potential financial-market risks and opportunities, we feel it is appropriate to maintain a slight overweight exposure to equities. Our base case is for slowing, but still decent, economic growth.

Exhibit 63: S&P 500 Index
Long-term price momentum



Note: coppock curve based on yearly data. Source: Bloomberg, RBC CM, RBC GAM

Exhibit 64: U.S. equity-market cycle statistics

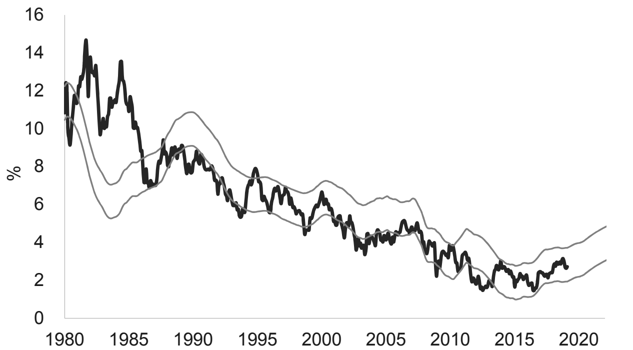


Source: RBC GAM

This scenario should be sufficient to generate moderate corporate-profit growth that would sustain mid-to high single-digit gains in North American equities, and low double-digit gains in international and emerging-market stocks. We mentioned last quarter that investors should become more cautious on equities if we didn't see signs of improving market breadth, impulse buying by investors or a pick-up in the relative strength of small- and mid-cap stocks. But the rally that began in late 2018 has been accompanied by all of these signals, reinforcing our positive view on stocks. As a result, we have left our modest equity overweight unchanged. For a balanced, global investor, we currently recommend an asset mix of 58 percent equities (strategic neutral position: 55 percent) and 41 percent fixed income (strategic neutral position: 43 percent), with the balance in cash.

GLOBAL FIXED INCOME MARKETS

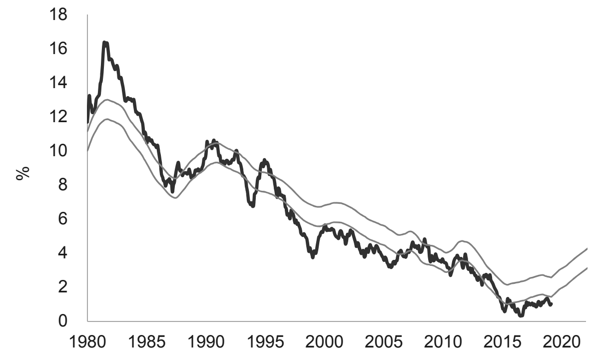
U.S. 10-Year T-Bond Yield
Equilibrium range



Last Plot: 2.72% — Current Range: 1.93% - 3.71% (Mid: 2.82%)

Source: RBC GAM, RBC CM

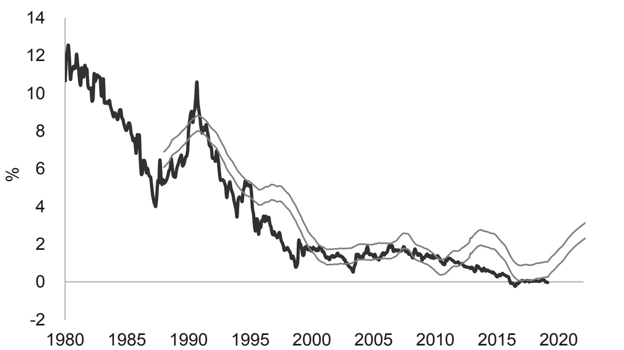
Eurozone 10-Year Bond Yield
Equilibrium range



Last Plot: 1.02% — Current Range: 1.43% - 2.57% (Mid: 2.00%)

Source: RBC GAM, RBC CM

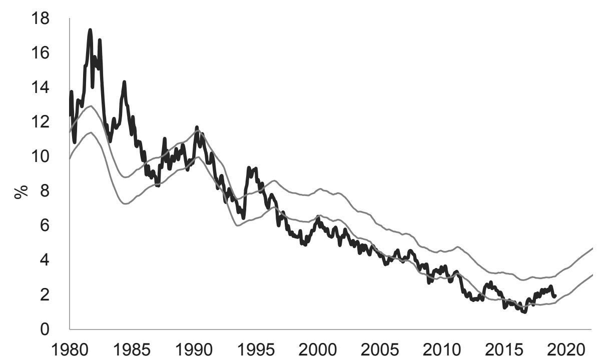
Japan 10-Year Bond Yield
Equilibrium range



Last Plot: -0.02% — Current Range: 0.27% - 1.08% (Mid: 0.67%)

Source: RBC GAM, RBC CM

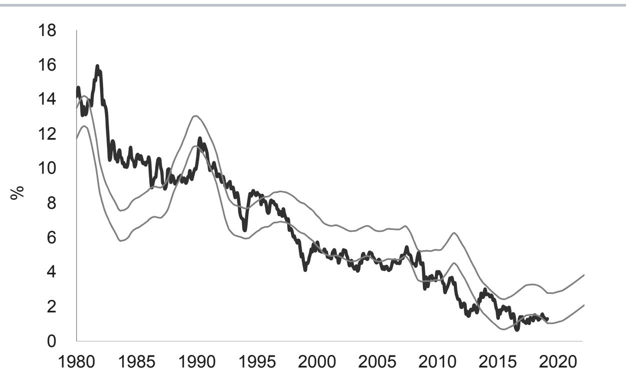
Canada 10-Year Bond Yield
Equilibrium range



Last Plot: 1.94% — Current Range: 1.53% - 3.07% (Mid: 2.30%)

Source: RBC GAM, RBC CM

U.K. 10-Year Gilt
Equilibrium range



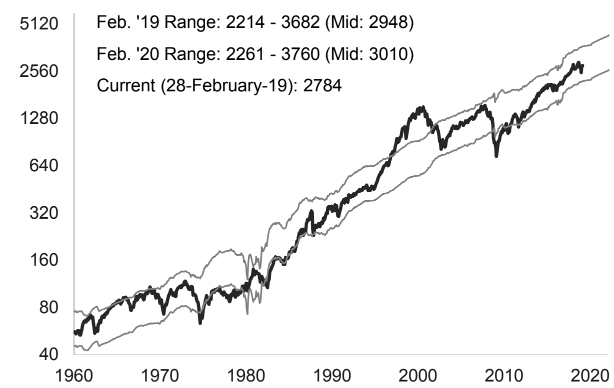
Last Plot: 1.30% — Current Range: 1.04% - 2.79% (Mid: 1.92%)

Source: RBC GAM, RBC CM

"A degree of vulnerability is creeping back into the sovereign-bond market, as yields are now below our estimates of equilibrium in all major regions, particularly in markets outside North America."

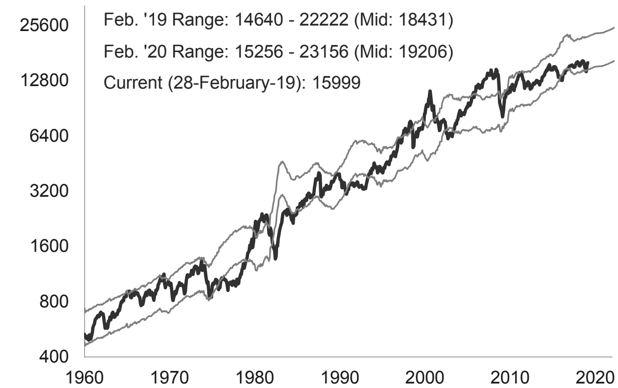
GLOBAL EQUITY MARKETS

S&P 500 Equilibrium
Normalized earnings and valuations



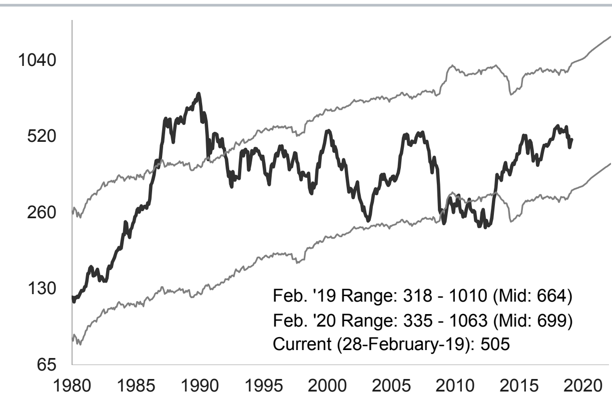
Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



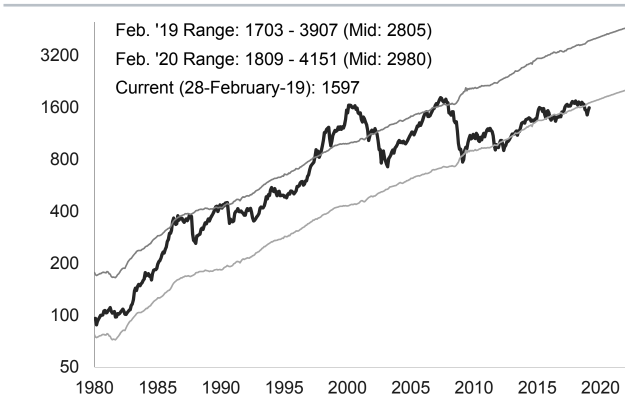
Source: RBC GAM

Japan Datastream Index
Normalized earnings and valuations



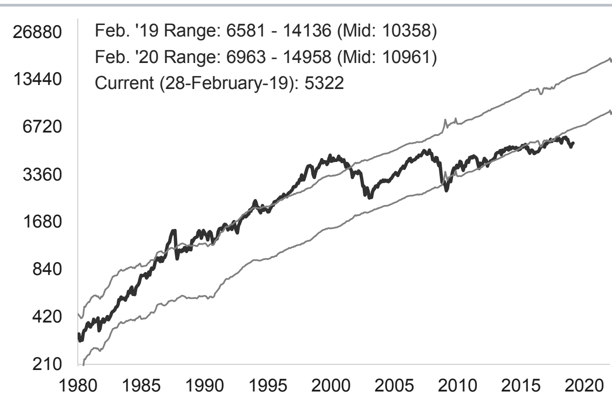
Source: Datastream, Consensus Economics, RBC GAM

Eurozone Datastream Index
Normalized earnings and valuations



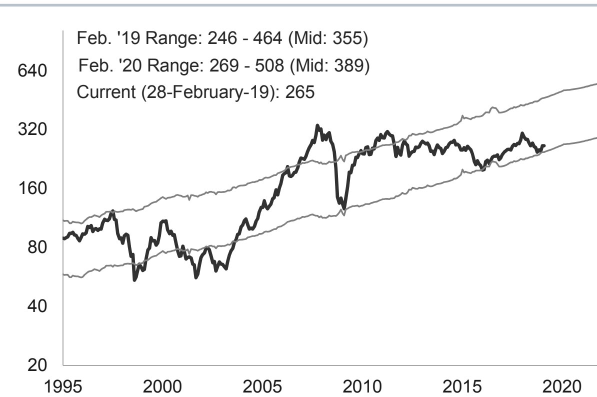
Source: Datastream, Consensus Economics, RBC GAM

U.K. Datastream Index
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM

Emerging Market Datastream Index
Normalized earnings and valuations



Source: Datastream, RBC GAM

GLOBAL FIXED INCOME MARKETS

The bond-market outlook

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Taylor Self, MBA
Senior Analyst
RBC Global Asset Management (UK) Limited

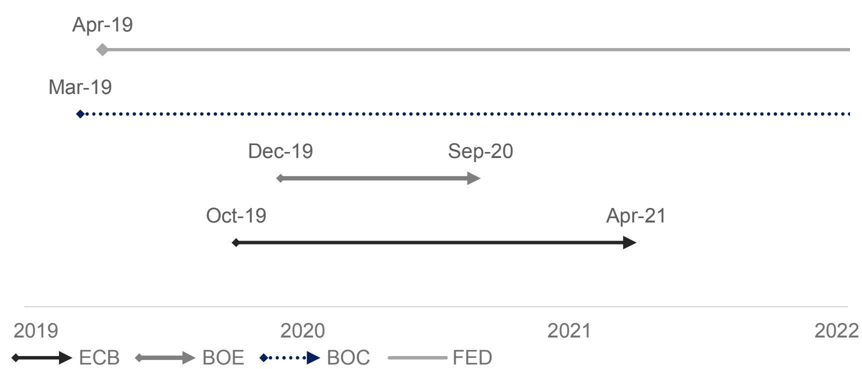
Financial markets had both a tumultuous end to 2018 and uncertain start to 2019, as slowing economic growth and political discord in the U.S. and Europe created an unfavourable environment for risk assets. Equities and corporate bonds fell precipitously while government bonds rallied, effectively fulfilling their role as a return diversifier in a balanced investment portfolio. While stocks and corporate debt have almost entirely recovered their losses since the beginning of the year, government bonds have hung on to most of the gains made when risky assets declined.

One reason for the strength of government-bond prices is that central banks have become more dovish this year, and we expect central banks will continue to be cautious as concerns about weakening economic growth linger and inflation remains modest. As a result, we believe that the U.S. Federal Reserve (Fed) has for now ended the string of fed funds hikes dating back to December 2015, and are also convinced that other central banks will step back from carrying out any plans to tighten monetary policy in the foreseeable future. We have therefore reduced our forecasts for long-term bond yields.

In the previous edition of the *Global Investment Outlook,* we forecast that the Bank of England (BOE), the European Central Bank (ECB), the Fed and the Bank of Canada (BOC) would all tighten policy sometime this year. It now appears that rate hikes will occur no earlier than late 2020, in the case of the ECB, and 2021 in the case of the BOE (Exhibit 1). No hikes at all are expected this year from either the BOC or the Fed.

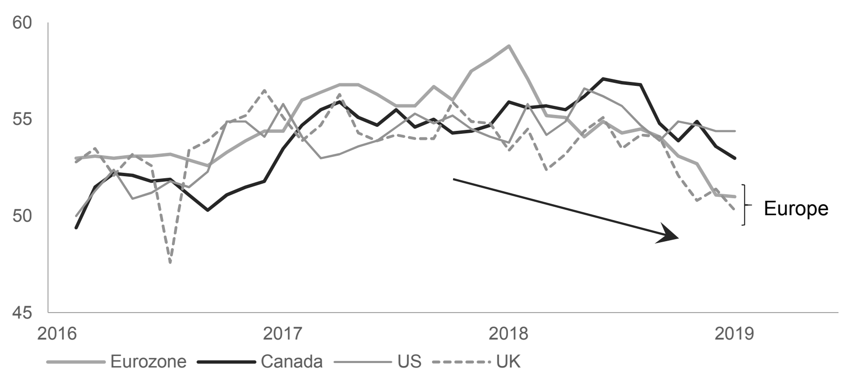
While economic growth in 2018 was impressive, the global economy has slowed noticeably (Exhibit 2), particularly in Europe, and central bankers will likely be content to wait and see how the global economy traverses this soft patch. In addition

Exhibit 1: Central banks have become much more dovish
Market expectations for date of next rate hike after January 1, 2019



Source: Bloomberg, RBC GAM. As of February 15, 2019

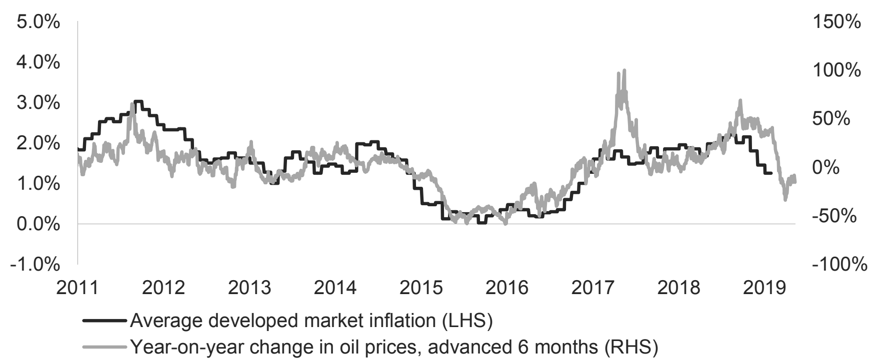
Exhibit 2: There has been a distinct slowdown from 2018
Manufacturing Purchasing Managers' Indices



Source: IHS Markit, RBC GAM

to weaker economic activity, inflation has softened. The drop in oil prices since last year has eased inflationary pressures, which should continue to moderate through the first half of 2019 (Exhibit 3). We agree with the consensus forecast that central-bank policymakers will remain mostly on hold for the foreseeable future, as long as there is no significant and sustained increase in inflation.

Exhibit 3: Developed-market inflation and oil prices
G4 inflation and oil prices



Source: Bloomberg, RBC GAM

GLOBAL FIXED INCOME MARKETS

Direction of rates

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U.S. – We expect that the U.S. Federal Reserve (Fed) will keep interest rates on hold in 2019, in contrast to our prior forecast for the Fed to deliver two increases by the end of this year. We had already anticipated that the pace of policy tightening in the U.S. would slow in 2019 as the Fed tacked to a more neutral policy stance. The Fed is the only major central bank that has raised rates above emergency levels since the financial crisis. After eight rate hikes, the current policy setting sits near most estimates of neutral.

With interest rates on hold, investors will pay more attention to the Fed's balance sheet, which has shrunk about 10 percent from its 2007 high of US$4.5 trillion. While the Fed has tried hard to divorce balance-sheet policy from interest-rate policy, investors are becoming increasingly concerned that further Fed balance-sheet shrinkage will have a negative effect on asset prices, and we believe that the Fed will therefore end the process of reducing its balance sheet earlier than had been projected, probably sometime this year. Another argument for a large balance sheet is that the Fed's current framework for controlling overnight interest rates requires substantial excess

Interest rate forecast: 12-month horizon
Total Return calculation: February 27, 2019 – February 26, 2020

U.S.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.50%	2.45%	2.45%	2.50%	2.60%	4.13%
Change to prev. quarter	(0.50%)	(0.55%)	(0.55%)	(0.50%)	(0.50%)	
High	3.00%	3.30%	3.40%	3.50%	3.50%	(1.11%)
Low	2.00%	1.90%	1.75%	1.75%	2.00%	8.27%

Expected Total Return US$ hedged: 4.02%

GERMANY

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.40%)	(0.40%)	(0.10%)	0.25%	0.75%	(0.11%)
Change to prev. quarter	(0.20%)	(0.40%)	(0.60%)	(0.50%)	(0.45%)	
High	(0.20%)	0.00%	0.50%	0.75%	1.15%	(4.75%)
Low	(0.40%)	(0.40%)	(0.30%)	0.00%	0.50%	2.48%

Expected Total Return US$ hedged: (0.31%)

JAPAN

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.10%)	(0.05%)	(0.05%)	0.10%	0.70%	(0.78%)
Change to prev. quarter	0.00%	0.00%	(0.05%)	(0.05%)	(0.25%)	
High	0.00%	0.10%	0.10%	0.20%	0.90%	(3.55%)
Low	(0.10%)	(0.10%)	(0.10%)	(0.10%)	0.55%	1.50%

Expected Total Return US$ hedged: (0.83%)

CANADA

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.75%	1.80%	1.90%	2.00%	2.20%	1.16%
Change to prev. quarter	(0.50%)	(0.50%)	(0.40%)	(0.40%)	(0.20%)	
High	2.25%	2.50%	2.60%	2.90%	2.90%	(5.22%)
Low	1.50%	1.40%	1.40%	1.35%	1.60%	7.00%

Expected Total Return US$ hedged: 1.10%

U.K.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.50%	0.60%	0.75%	1.00%	1.70%	2.97%
Change to prev. quarter	(0.50%)	(0.65%)	(0.85%)	(0.75%)	(0.30%)	
High	0.75%	1.00%	1.20%	1.40%	1.90%	(0.45%)
Low	0.00%	0.05%	0.15%	0.50%	1.30%	9.59%

Expected Total Return US$ hedged: 3.29%

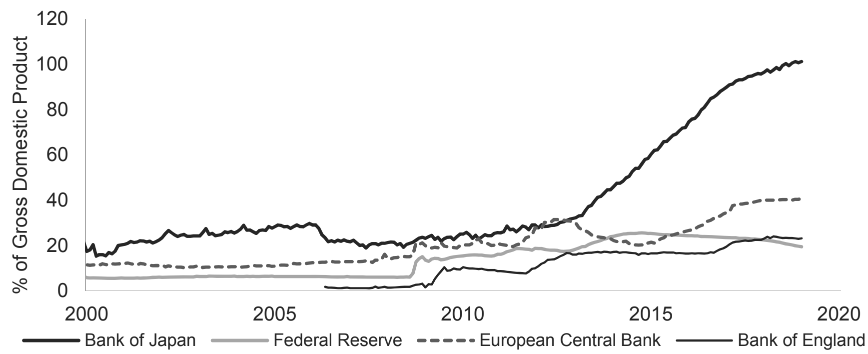
Source: RBC GAM

reserves in the banking system to be effective, and a larger-than-expected balance sheet will remove one of the long-term factors putting upward pressure on U.S. bond yields. With the Fed holding rates unchanged, we are expecting the 10-year Treasury yield to fluctuate around 2.50 percent over the forecast horizon. This is a reduction from our previous forecast of 3.00 percent.

Germany – The Eurozone faces a period of uncertainty given the scheduled departure of Mario Draghi as ECB president at the end of October. Our view is that his exit will not have a significant impact on the ECB's approach to policy, as the central bank came to terms with its responsibility for ensuring the continuity of the euro and broader European political integration in the aftermath of the European 2011-2012 sovereign-debt crisis. These days, ECB policymakers are in near-unanimous agreement that unconventional monetary-policy measures will likely become a permanent feature of monetary policy.

In the shorter term, slowing economic activity and lower oil prices have increased the ECB's difficulty in pushing inflation towards the central bank's 2 percent target. With the policy rate still set at emergency levels, we don't expect any change over the next 12 months.

Exhibit 1: The Bank of Japan stands out among its peers
Central-bank balance sheet size as a share of GDP



Source: Respective central banks, statistical agencies and RBC GAM

Aside from policy-rate changes, the ECB will continue efforts to support European banks, especially in Italy, through a program designed to create liquidity for encouraging business loans (LTROs). The extension of the LTRO program, which was slated to expire later this year, will support prices for government bonds, especially those issued by Italy, Spain and Portugal.

In line with lowered expectations for ECB rate hikes, bund yields have fallen. The yield on the 10-year German benchmark security was recently just above 0 percent, but yields could struggle to rise meaningfully as long as investors are counting on the ECB to backstop the long-term financial health of the Eurozone. Our 12-month forecast for the 10-year bund yield is 0.25 percent, down sharply from the previous forecast of 0.75 percent.

Japan – After almost five years of continuous monetary stimulus, inflation remains stubbornly below the Bank of Japan's (BOJ) 2 percent target. Meanwhile, the Japanese central bank has purchased over 50 percent of the outstanding Japanese government bonds (JGBs), meaning that its holdings dwarf those of other central banks adjusted for the size of their economies (Exhibit 1). Serious questions will at some point be asked about how - and whether - the BOJ can ever reduce its balance sheet. For now, we believe the BOJ will stay committed to an extraordinarily loose monetary policy that uses open-ended bond purchases to control the shape of the yield curve. Modest policy changes, such as taking steps to steepen the yield curve, could be made to moderate some of the negative effects of low interest rates on bank profitability. We do not expect the BOJ to adjust its short-term policy rate over the next 12 months, and we expect the 10-year yield to fluctuate within the BOJ's target range of plus or minus 0.20 percent.

U.K. – The Bank of England (BOE) has been reluctant to raise interest rates from emergency levels due to uncertainty surrounding Brexit, which has weighed on the U.K. economy and held back inflation and economic activity. Accordingly, expectations for the BOE's next hike have been moved further back. We do not anticipate that the BOE will change its policy rate before the end of this year. We have lowered our 10-year gilt-yield forecast to 1.00 percent from 1.75 percent, reflecting a very cautious BOE against a backdrop of weakening growth and slowing inflation, as well as continued Brexit uncertainty.

Canada – The Bank of Canada (BOC) raised its short-term benchmark interest rate by a total of 75 basis points in 2018, but by the start of this year seemed much less inclined to continue boosting rates given slowing domestic growth. The BOC recently cut its economic-growth forecasts for Canada and said it will assess the impact of lower oil prices and tighter financial conditions on the economy before deciding how to proceed. The BOC's core inflation measures all sit below 2 percent, and are therefore too low to prod the bank into additional moves. Nor is the current pace of economic expansion robust enough to prompt the BOC to act: both global and domestic growth are forecast to be lower in 2019, with the latter subject to declines in oil production and a softer housing market. As a result, we expect the central bank to stand pat on policy rates for now, with the BOC's caveat that "the policy interest rate will need to rise over time into a neutral range to achieve the inflation target."

International interest in bonds issued by Canadian entities was lacklustre for much of 2018 as currency weakness, softening commodity prices, pipeline delays and trade worries had investors shying away from the Canadian market. Towards the end of year, however, broader global-growth concerns sent investors searching for safe havens such as Canadian bonds. Provincial bonds have experienced healthy inflows, and the provinces have been frequent issuers in other currencies thanks to favourable market conditions.

The consensus view is that there will be one more rate hike by the BOC in 2019, late in the year. We believe that the BOC is likely finished raising policy rates and could be on hold into 2020. Our forecast is for 10-year government bonds yields to trade modestly higher at 2.00 percent, 40 basis points lower than our previous forecast.

Regional preferences

We recommend overweighting U.S. Treasuries by 5 percentage points, against 2.5 percent underweight positions in both German bunds and JGBs. The gap between U.S. and German bond yields remains wide by historical standards. Moreover, based on economic-growth differentials, U.S. yields are too high and under pressure to fall, or European yields are too low and more likely to rise. In Japan, government bond yields have fallen to the bottom of the BOJ's target range for yield-curve control, and we therefore believe being underweight JGBs offers another potential path for attractive relative returns.

CURRENCY MARKETS

The time is not ripe for a U.S.-dollar bear market

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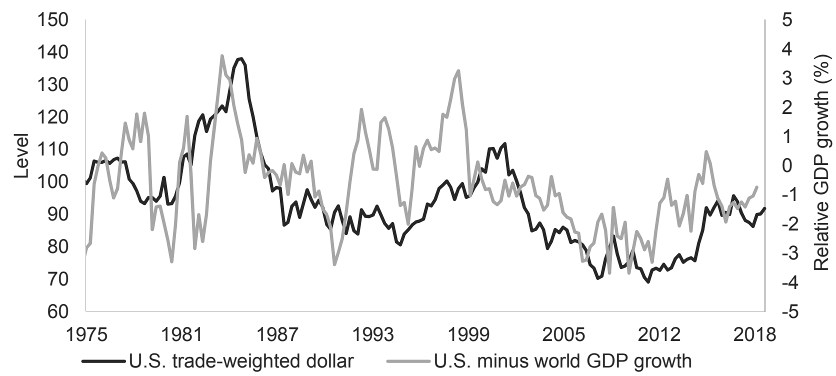
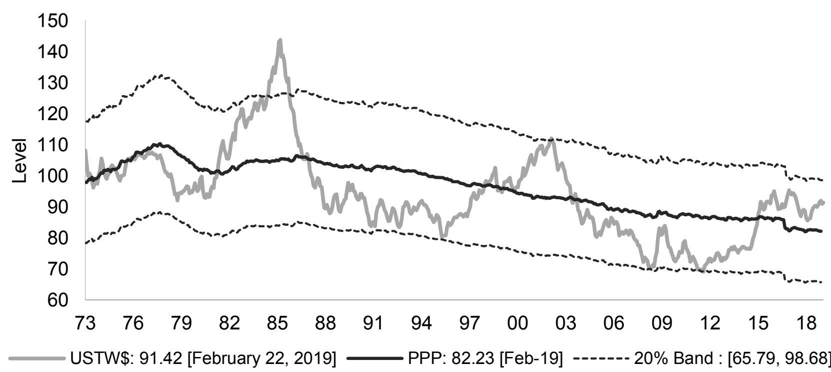
The eight-year-old U.S. dollar bull market has attracted many a skeptic and raised a host of questions: Can the greenback continue to rally given America's imprudent economic policies? Should investors continue to put their faith in the currency as the White House exerts pressure on the U.S. Federal Reserve (Fed) to hold down interest rates? And what of the Trump administration's prevailing contempt for international diplomacy? These entirely valid questions are suited to a much longer-term outlook than our 12-month time horizon. We believe, however, that investors would look beyond a single presidential term before making long-term judgments about whether the U.S. dollar is headed for a multiyear decline. Instead, we focus on drawing parallels with past cyclical movements in the greenback and look to the more reliable drivers of these cycles to inform our expectations about the future. These indicators don't yet confirm the need to call for a U.S.-dollar bear market.

Exhibit 1: USD and relative economic growth



Source: IMF, Bloomberg, RBC GAM

Exhibit 2: U.S. purchasing power parity valuation



Source: RBC GAM

The first key component in our framework is the difference between U.S. economic growth and growth in other regions. The strong link between currency movements and growth (Exhibit 1) can be explained by large and persistent shifts in the world's capital flows: money tends to chase higher returns, and those higher returns are generally found where economic growth is strongest. At present, despite slowing U.S. growth, differentials with other countries along with large capital movements are still benefiting the U.S. dollar and will remain supportive at least until this relative economic momentum sustainably declines.

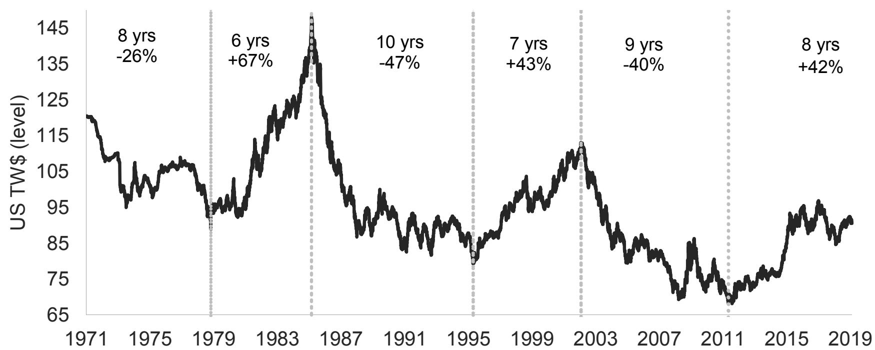
Second, the U.S. dollar is not extremely overvalued – its valuation lies within our 20 percent valuation bands (Exhibit 2). While this is not a precondition for the dollar to soften, the tendency for importers and investors to seek cheaper alternatives is generally not strong enough until a currency is more than 20 percent above its purchasing power. In the absence of such extreme overvaluation, this natural economic adjustment will simply take longer to occur, which is why we have argued that this cycle's peak will be much choppier and more extended than past turning points in 1985 and 2001 (Exhibit 3).

Third, the U.S. dollar still enjoys the support of higher interest rates. Even though the absolute level of interest rates is low, a 2-year U.S. Treasury yield of 2.50 percent is much more attractive than the negative yields on offer in Germany, Japan and Switzerland. These differentials make shorting the U.S. dollar or hedging U.S. assets very expensive. In addition, U.S. 2-year bonds offer the highest real yield among all major economies, with most others having yields below current levels of inflation (Exhibit 4).

Given the extent to which the economic landscape has soured since the turn of the year, investors are now pondering whether there are any rate hikes left in this cycle and what implications this would have for the greenback. If risk aversion causes the Fed to turn more cautious, could this mean a sudden decline for the dollar?

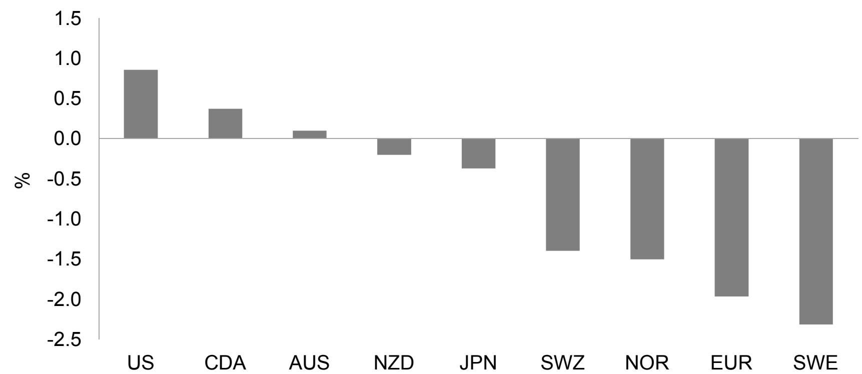
Based on past experience, the answer is probably not. There aren't many rate-hiking cycles from which to draw parallels, and only two that occurred during environments similar to the current one, in which the U.S. dollar was both overvalued and also in the latter stages of a bull market (Exhibit 5a). But these two cycles have interesting similarities in that the dollar tends to rally for

Exhibit 3: Long-term cycles of the U.S. trade-weighted dollar



Source: Bloomberg, RBC GAM

Exhibit 4: Developed-market 2-year real yields



Source: Bloomberg, RBC GAM

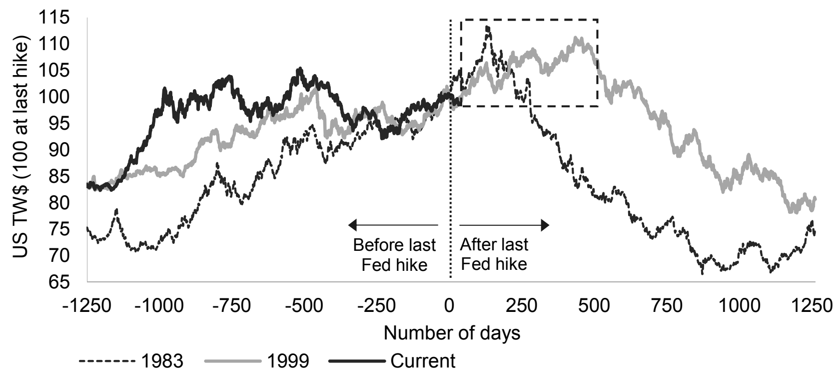
Exhibit 5a: Tightening cycles and the USD

Cycle	1st hike	Last hike	USD cycle	USD valuation	Caused recession
1972	Feb. 1972	Aug. 1973	Bear	(1%)	Yes
1976	Dec. 1976	Mar. 1980	Bear	(3%)	Yes
1980	Aug. 1980	Jan. 1981	Bull	(5%)	Yes
1983	Apr. 1983	Aug. 1984	Bull	25%	No
1986	Dec. 1986	Sept. 1987	Bear	(8%)	No
1988	Mar. 1988	Feb. 1989	Bear	(12%)	Yes
1994	Feb. 1994	Feb. 1995	Bear	(13%)	No
1999	Jun. 1999	May 2000	Bull	9%	Yes
2004	Jun. 2004	Jun. 2006	Bear	(9%)	Yes
Current	Dec. 2015	Dec. 2018	Bull	12%	???

Source: RBC GAM

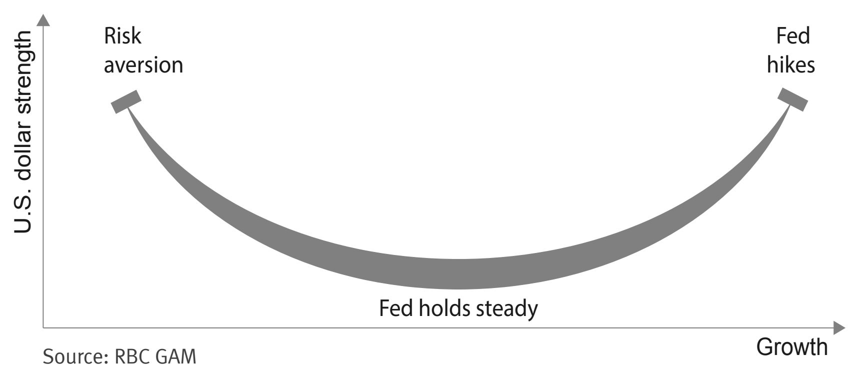
another year or two beyond the final rate hike (Exhibit 5b). Why? Perhaps because investors can't be certain that any single rate boost was the last of a cycle, and as a result the Fed can continue to provide interest-rate support to the dollar for a while longer. In addition, the U.S. dollar is a safe-haven currency, tending to rally when risky assets tumble. The "U.S.-dollar smile" (Exhibit 6) describes relationships where the dollar performs well under very positive economic scenarios – those in which the Fed would likely be hiking rates – and also under poor economic scenarios, where risk aversion would lead the dollar to strengthen. Both interest-rate support and safe-haven scenarios dovetail with our thesis that the dollar is not ready to transition to a long-term downward trend. Our assumption is that the choppy topping process characterizing U.S.-dollar movements will continue for at least another year, or until we begin to see signs that the dollar's valuation is having an impact on current-account imbalances.

Exhibit 5b: USD performance before and after last Fed hike



Source: Bloomberg, RBC GAM

Exhibit 6: The U.S.-dollar smile



Source: RBC GAM

Still more life in EM currencies

Where developed-market currencies have been mostly range-bound over the past year, it has been a volatile period for emerging-market currencies. Concerns about politics and fiscal deterioration in Turkey and Argentina over the summer have severely dented investor appetite for risky assets, and both the Turkish lira and Argentine peso were among the worst-hit during last year's episode of capital flight. Other emerging-market currencies fell in sympathy rather than because of any country-specific news. Since the early-September lows, emerging-market currencies have bounced by 10 percent, while G10 currencies drifted lower. There is room for further strength in emerging-market currencies, we think, because they still enjoy the tailwind of cheap valuations and relatively high interest rates, and also because the three main issues that have worried investors are gradually diminishing.

These are:

- Central banks have become more dovish. In addition to the Fed, a handful of other global monetary actors have pared expectations for tightening in 2019. If expectations about monetary policymakers keeping rates unchanged for the rest of 2019 are correct, it will be a friendly environment for emerging-market currencies.

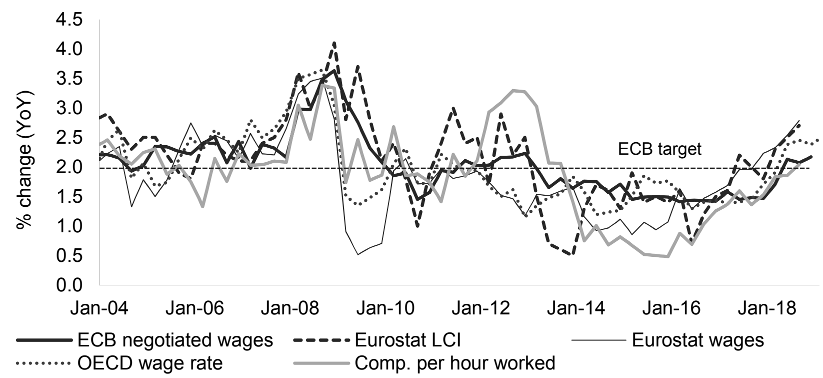
- There are signs that U.S.-China trade negotiations will lead to a settlement of the countries' trade dispute. The conflict has weighed heavily on countries that are the most export-oriented, and a resolution of tensions between the world's two biggest economies would therefore offer huge relief to emerging-market investors.
- There are tentative signs that Chinese economic growth is stabilizing. Policy makers in the country have employed numerous tools to provide support for the economy, and targeted measures to stimulate lending, cut taxes and expedite investment projects will begin to have a greater impact in the second half of the year.

Further relief on these three concerns, particularly the last one, will go a long way toward supporting emerging-market currencies, and we believe that they could reclaim levels last reached in early 2018.

Euro to rise to 1.20

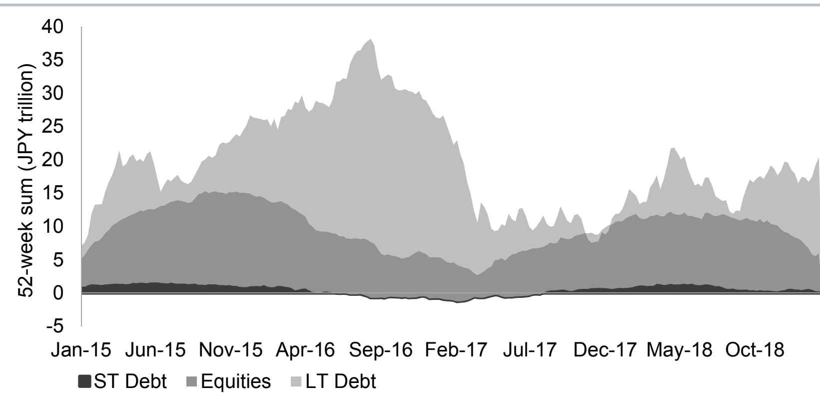
Much of the outlook for the euro depends on the European Central Bank (ECB), and with softening economic data in the region, investors are pricing in little change in policy rates. However, the hurdle for tightening should be lower for a central bank employing negative rates than for one whose policy rates are closer to neutral. As wage pressure (Exhibit 7) causes inflation to rise toward the ECB's 2 percent target, the euro will become more reactive to any rhetoric that could be interpreted as hawkish. Meanwhile, any positive news on Brexit, Italy's banking system or Chinese growth would result in the euro pushing above the upper end of its 1.12 – 1.16 range.

Exhibit 7: Eurozone measures of wage inflation



Note: LCI = Labour cost index. Source: Eurostat, OECD, Bloomberg, RBC GAM

Exhibit 8: Japanese portfolio investment abroad



Source: Japanese Ministry of Finance, Macrobond, RBC GAM

Japanese yen to rise to 102

Within the G10, we are most bullish on the yen, as long-term factors such as cheap valuations and a strong current-account balance remain positive. In the shorter term, slowing U.S. growth and risk aversion will also bolster the Japanese currency as it still enjoys safe-haven status. Holding back the yen are persistent capital outflows as Japanese investors seek higher returns outside the country. Equity outflows are now beginning to slow (Exhibit 8) as the rising cost of hedging U.S. assets and higher equity volatility have weakened the case for Japanese investors to allocate capital abroad. In the absence of these influential outflows, we expect the yen to strengthen toward 102 from about 111 currently.

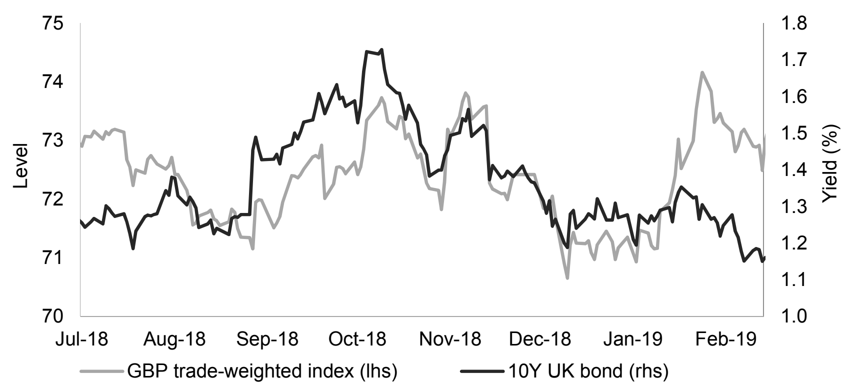
British pound to fall to 1.25

Expectations that the U.K. will avoid a disruptive Brexit have generated a rally in the pound. But sterling has risen far above what would be justified by the performance of gilts (Exhibit 9). Even with a soft-Brexit outcome, the U.K.'s economic outlook is far from rosy given weakening domestic inflation, lagging business investment, poor consumer confidence and low productivity. As a consequence, we expect the Bank of England to be on the sidelines for some time. Over both short- and longer-term horizons, the outcomes are skewed toward a lower pound given that sterling trades near 1.32.

Canadian dollar to fall to 1.37

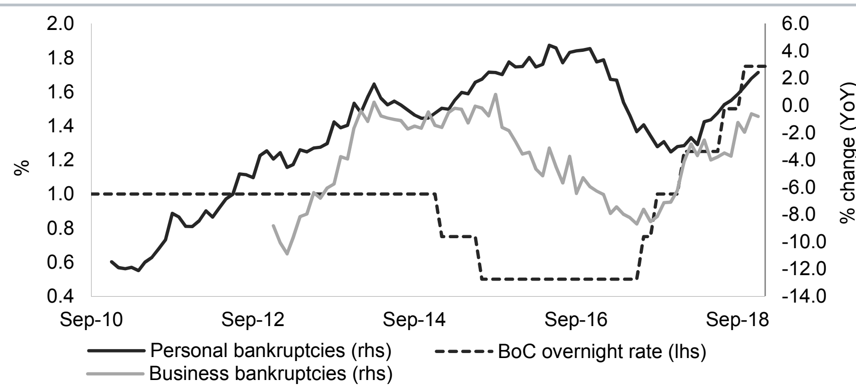
There has been a marked deterioration in domestic economic data since 2017. Canada's economic growth rang in at a disappointing 1.8 percent in 2018, more than a full percentage point below the comparable U.S. rate of 2.9 percent. The outlook for Canadian growth over our forecast horizon is not much better, as weakening consumer and investment spending have combined with a worsening balance of payments to suppress economic activity.

Exhibit 9: Trade-weighted GBP versus 10-year gilts



Source: BMO, Bloomberg, RBC GAM

Exhibit 10: Canadian bankruptcies and Bank of Canada rate



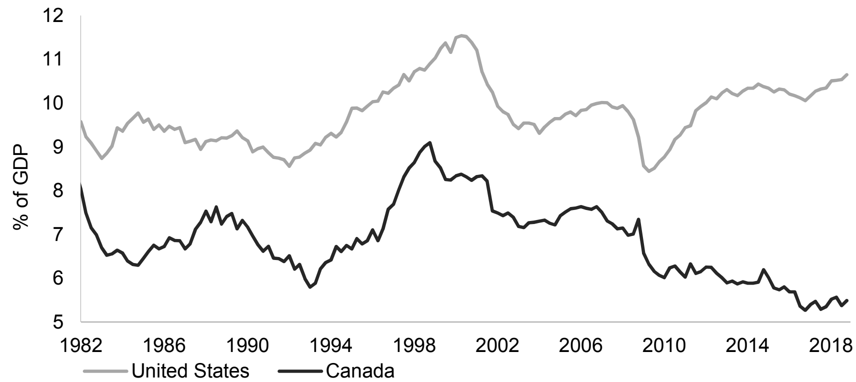
Source: StatsCan, Bloomberg, RBC GAM

It is well known that debt levels have been rising in Canada and that higher rates will have an adverse impact on Canadians. As the tide of cheap money recedes, we expect to see increased defaults on loans that were extended to fund poor business models (Exhibit 10). Household disposable incomes will likely be squeezed too. As a result, job creation and wage gains will be required to maintain consumption growth this year. Should employment begin to soften or house prices to decline, there could be a sharp deterioration in consumer spending.

For over 30 years Canada has consistently lagged the U.S. in investment in productive capacity. Over the past 10 years that gap has widened with current Canadian investment at half that of U.S. levels (Exhibit 11). Rising taxes, higher minimum wages and petroleum-pipeline delays are not making the business environment any easier, serving as impediments to growth and also to global competitiveness. Evidence of Canada's declining competitiveness can be seen in persistently weak foreign direct investment (FDI), which has been falling for 10 years despite Canadian dollar depreciation of almost 28 percent over six years - an indication that foreigners are reticent to invest in Canada.

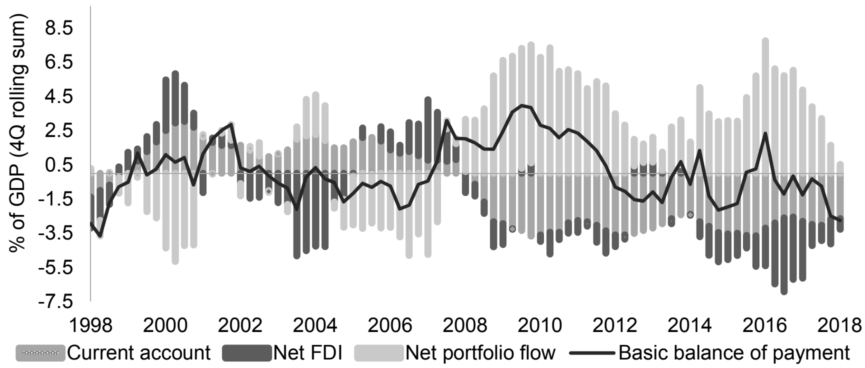
While some of these policies have been partly reversed (minimum wages, corporate taxation), the damage will take years to correct. This places the burden of adjustment on the currency, which is often relied upon as a relief valve. Given that the Canadian dollar is undervalued, we might expect that Canadian assets or goods would be attractive to foreign investors. However, portfolio flows into the country have plummeted from approximately 6 percent of GDP in the third quarter of 2017 to 0.5 percent at the end of 2018 (Exhibit 12). Furthermore, the current-account deficit remains wide, suggesting that past loonie weakness has not been sufficient to make the country's goods and services sufficiently cheap either. Taken together, FDI, portfolio flows and the current account form the basic balance of payments, which is at its worst level in 20 years.

Exhibit 11: Business investment in machinery, equipment and intellectual property



Source: Macrobond, RBC GAM

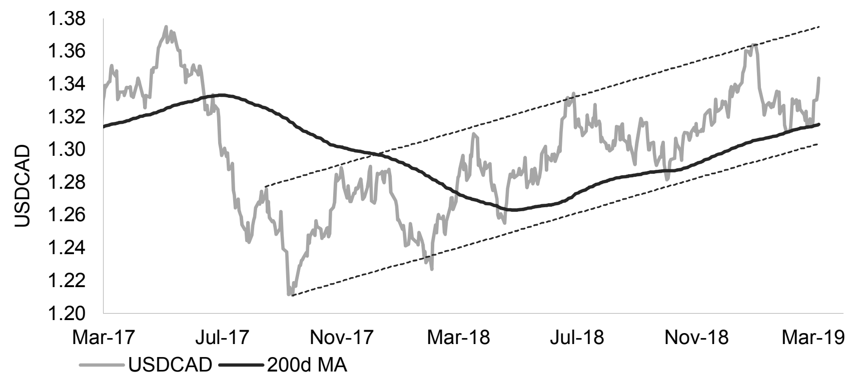
Exhibit 12: Canadian basic balance of payments



Source: Statistics Canada, RBC GAM

We acknowledge a few important Canadian-dollar positives: strong immigration, especially of highly skilled workers; cutting-edge research being conducted in Canadian hospitals and universities; and increasing evidence that Toronto is becoming one of North America's fastest growing technology centers. However, we don't think these positive factors have gained enough momentum to outweigh the economic drag posed by the trends mentioned above. The Bank of Canada (BOC) expects investment and exports to drive economic growth in 2019, but there is little evidence that either is accelerating. Furthermore, underlying inflation remains stubbornly low, registering 1.4 percent year over year in January, down from 2.0 percent in December. Given these factors, it is unlikely that the BOC will be the loonie's saviour. Most of our shorter-term models and metrics suggest that the Canadian dollar should fall against the U.S. dollar, which would be an encouraging sign for chartists watching the most recent trend channel (Exhibit 13). Risks to our forecasts are skewed toward a weaker loonie and include a U.S. economic slowdown, doubts about the passage of the U.S.-Mexico-Canada trade deal, the potential for economic fallout from the possible extradition of a Chinese business executive and domestic political uncertainty linked to the SNC-Lavalin scandal. Any of these factors could push the currency toward the upper end of our expected range of 1.30 to 1.40.

Exhibit 13: USDCAD ascending channel



Source: Bloomberg, RBC GAM

REGIONAL OUTLOOK – U.S.

Brad Willock, CFA
V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

The S&P 500 Index had a wild ride over the past three months, including a 9.2 percent December decline that was the stock market's worst December since 1931. The sell-off, driven by slower global economic growth, trade uncertainty, a U.S. government shutdown and higher policy rates, was followed by a strong rally that extended through February. The stock volatility reflected the higher probability of a recession, as well as poor year-end liquidity that exacerbated the downturn. The market hit its closing low for the three-month period on Christmas Eve, down almost 20 percent from an all-time closing high on September 20, 2018. Since the end of the year, stocks have moved steadily upward, driven by a dovish pivot by the U.S. Federal Reserve (Fed), the end of the government shutdown and indications of progress on trade issues between the U.S. and China.

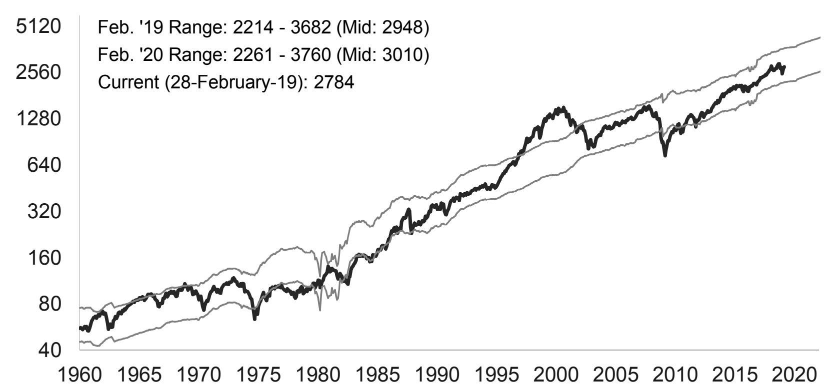
Now that stocks have rallied to within 5 percent of their all-time high, it is time to reassess the investment backdrop to determine how much exposure our portfolios should have to the U.S. stock market. The biggest threats to the economic and stock-market cycles at this point would be the Fed moving too quickly to raise interest rates and Trump administration efforts to move too aggressively against China on trade.

United States – Recommended sector weights

	RBC GAM Investment Strategy Committee February 2019	Benchmark S&P 500 February 2019
Energy	4.5%	5.4%
Materials	2.0%	2.7%
Industrials	9.8%	9.8%
Consumer Discretionary	10.5%	9.9%
Consumer Staples	6.5%	7.1%
Health Care	15.5%	14.8%
Financials	12.5%	13.3%
Information Technology	21.7%	20.6%
Communication Services	10.1%	10.1%
Utilities	3.5%	3.3%
Real Estate	3.5%	3.0%

Source: RBC GAM

S&P 500 Equilibrium
Normalized earnings and valuations



Source: RBC GAM

To get a handle on how vulnerable the economy is to a significant slowdown, we consider the health of consumers and corporations. Interest-rate-sensitive industries such as housing and autos have shown weakness for several quarters, especially in California, home to 20 percent of the country's housing stock. Sales activity in the state plummeted last year and inventories soared about 30 percent after a 100-basis-point rise in mortgage rates, much less than the 300-basis-point increase that in the past was required to halt the housing market. But the relatively small increase came as a shock to consumers, whose wages have not kept pace with rising rates. General retail and auto sales are other areas where the data are weak. The stock-market downturn in the fourth quarter and the federal-government shutdown prompted consumers and businesses to curtail spending, although negative influences have been resolved or diminished significantly.

One bright spot is the jobs market. The economy added 240,000 positions per month on average over the past three months, and the number of jobs available exceeds the number of unemployed seeking work. The strong employment picture suggests that the consumer remains in decent shape and that the housing market should stabilize now that the 30-year mortgage rate has come off its high. Debt levels are manageable, and wages are starting to pick up.

Moving from a macroeconomic analysis to a look at corporations, we note that company risks usually arise from excessive capital spending or borrowing. The risks associated with troublesome excess capacity haven't appeared so far, and public companies that took on lots of debt over the past decade locked in low fixed rates and for the most part have had sufficient cash to cover interest costs. That said, we recognize at this late stage of the economic cycle that a recession would likely result in dramatically lower cash flows and lead to a significant uptick in credit defaults.

The stock market is a good place to look for signals on the state of the economic cycle. For example, it is likely that underperformance in specific parts of the Financials sector would precede an acceleration in debt defaults. Another development would be the consistent outperformance of stocks with stable earnings growth typically found in the Consumer Staples, Utilities and Health Care sectors. In contrast, the current rally has been led by the Industrials and Energy sectors. In summary, we can see nothing in the market's tea leaves that signals an imminent end to the business cycle or the bull market.

The market declines in the fourth quarter of 2018 – in reaction to slowing global growth, the Fed's actions and President Trump's trade policy – were warranted in our view. But the size of the price move was excessive. The S&P 500 has retraced most of the plunge after the Fed paused its cycle of interest-rate hikes and optimism increased that the U.S. and China would come to some sort of short-term settlement of their trade conflict. What has not been reached is a consensus view on the pace of global economic growth, which continues to decelerate. One of the keys to the direction of financial markets and the economy will be the extent to which China's efforts to stimulate its economy are successful.

While our base case is for stocks to rise modestly over the next year, there are macroeconomic scenarios that could lead to different outcomes. For stocks to rise significantly, all or some of the following would likely occur: the economic expansion remains intact through 2021, perhaps because the Fed stops raising interest rates; the U.S. and China reach a trade agreement; and the Chinese economy re-accelerates. In the downside scenario, global growth would continue to slow, likely because the Chinese economy does not respond to stimulus efforts, leading to profit declines; and rising geopolitical risks would cause investors to reduce their valuations for stocks and corporate bonds. Based on the balance of risks, our conclusion is that, for now, the global economy should continue to expand fast enough to support stocks in the short term, but there is less clarity to our intermediate-term view.

REGIONAL OUTLOOK – CANADA

Sarah Neilson, CFA
Portfolio Manager
RBC Global Asset Management Inc.

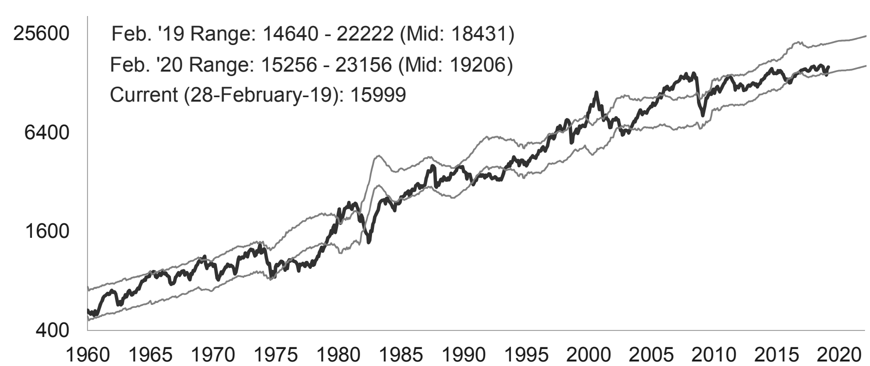
Irene Fernando, CFA
Portfolio Manager
RBC Global Asset Management Inc.

Canada – Recommended sector weights

	RBC GAM Investment Strategy Committee February 2019	Benchmark S&P/TSX Composite February 2019
Energy	18.0%	18.4%
Materials	10.5%	11.1%
Industrials	11.0%	10.6%
Consumer Discretionary	4.5%	4.2%
Consumer Staples	5.0%	3.8%
Health Care	1.0%	2.1%
Financials	32.0%	32.5%
Information Technology	4.5%	4.3%
Communication Services	6.0%	5.7%
Utilities	4.5%	4.0%
Real Estate	3.0%	3.2%

Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



Source: RBC GAM

The S&P/TSX Composite Index underperformed most major global equity markets in 2018, falling 11.6 percent. The S&P 500 Index, by comparison, lost 6.2 percent and the MSCI World Index dropped about 10 percent. Since the start of 2019, however, the Canadian stock benchmark has rebounded, with a 13 percent gain that is slightly ahead of other global markets.

Investors are monitoring global economic and financial conditions for signs of a recession, and recent financial-market volatility suggests the jury is still out on whether an economic downturn is on the way. The outlook for global trade, and specifically the relationship between the U.S. and China, is one of the keys to economic projections, given the likely negative impact of any ratcheting higher in tariffs between the two trading partners. As well, the Chinese and European economic data indicate slowing growth, and commodity prices are particularly sensitive to this outlook. The U.S. Federal Reserve has been walking back expectations that it will raise interest rates in the near term, helping to buttress share prices.

The Canadian economy expanded 1.8 percent in 2018, and we expect the rate to decrease to 1.5 percent in 2019. A healthy labour market and consumer spending are the main drivers of domestic growth, while declining investment in housing and energy are negatives. In response, the Bank of Canada has reduced its 2019 GDP growth forecast to 1.7 percent from 2.1 percent and left the policy interest rate unchanged at 1.75 percent. The central bank continues to signal, however, that rates will likely rise over time to a neutral range to keep inflation near its 2 percent target.

The earnings-growth outlook for the S&P/TSX has been tempered by developments in the energy sector and the potentially negative impact of slowing global growth on commodity prices. Analysts have reduced S&P/TSX earnings expectations for 2019 to $1,100, representing 7 percent year-over-year growth, down from the 11 percent expected just a few months ago. Early 2020 consensus estimates for S&P/TSX earnings are for 11 percent growth to $1,221, with half the increase expected to come from – perhaps overly ambitious – growth in Energy and Materials sector profits.

Following the early-2019 equity rally, investors are paying 13.5 times S&P/TSX forward earnings, slightly lower than the long-term average of 14.5, which may be warranted given the cautious global economic backdrop. The S&P/TSX continues to trade at a discount to the S&P 500, the result of the Canadian benchmark's high exposure to the Financials, Energy and Materials sectors.

As equity volatility increased at the end of 2018, Canadian investment flows were funneled to more defensive areas, including Real Estate, Consumer Staples and Utilities, as well as telecommunications. The cyclical sectors fared the worst at that time. At the start of 2019, the Health Care, Information Technology and Energy sectors have posted the biggest relative gains, with Health Care driven by cannabis-related equities. The Materials sector benefited from a surge in gold prices above US$1,300 per ounce as the U.S. dollar weakened slightly and investors priced in a slower pace of Fed rate increases. A healthier environment for precious-metals prices has aroused investor interest in gold-industry consolidation.

The Financials sector underperformed the S&P/TSX during 2018. Performance was held back by life insurers, which ended the year down just over 20 percent due to a challenging macroeconomic backdrop during the last three months of the year. The stock declines mean that valuations in this area of the market are now at their most attractive levels since the financial crisis, and the companies still sport strong balance sheets and capital in excess of regulatory requirements.

Canadian banks' valuations are more attractive after a 21 percent drop in their price-to-earnings ratios in 2018, while earnings per share rose 13 percent. Investors remain cautious, reflecting fears of high consumer leverage, a slowing Canadian housing market and the potential for a deterioration in credit quality. The consensus forecast is for 6 percent EPS growth in both 2019 and 2020, reflecting a 20 percent increase in provisions for credit losses. We believe that banks should fare well relative to the index given their resilient business models, as earnings contributions are diversified. In addition, banks are carrying historically high amounts of excess capital and are well prepared to weather a downturn in credit.

Crude-oil prices continued to vacillate in 2018, but have had a positive start to 2019, with North American benchmark prices up about 25 percent so far this year. The supply/demand outlook is close to balanced due in large part to a December decision by OPEC to reduce production. We continue to monitor output from Iran, which is still under U.S.-led sanctions; supply-growth projections from the prolific U.S. shale basins; and the resolve of OPEC members to live up to their output quotas.

Global demand for energy keeps growing. Crude-oil consumption is forecast to rise 2 percent to 101 million barrels per day in 2019, but remains susceptible to shifts in the global economic outlook, specifically in emerging markets. The discounted price of Canadian crude oil widened significantly in 2018. The Alberta government, acknowledging the negative economic impact of lower prices, announced mandatory production reductions beginning in January 2019. The rapid supply reduction narrowed the pricing gap and quickly improved the profitability of many Canadian producers.

While the outlook for Canadian energy stocks is somewhat muted given curtailed production and lack of pipeline capacity, we expect clarity in 2019 on the outlook for major pipeline construction and regulation, allowing investors to better assess the sector's returns. In the meantime, many large Canadian energy producers are set to generate significant free cash flow, assuming commodity prices remain in the current range, and are boosting share buybacks.

REGIONAL OUTLOOK – EUROPE

Dominic Wallington
Head, European Equities &
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

The European composite leading indicator has been declining for 11 months and we have been in the "recession" part of the style cycle for four months. The definition of this phase, which differs somewhat from that used by economists to describe the economic cycle, describes a scenario in which all leading indicators are falling. This situation may or may not develop into an economic contraction, but the difference is academic inasmuch as market behaviour tends to be the same in both cases. Each phase of the style cycle lasts, on average, between seven and nine months. We can say, therefore, with a degree of confidence that we are at least halfway through the "recession" phase and that the leading indicators should stabilize and then turn up over the next 12 months.

The European Stoxx 600 Index has acted as expected given these developments. Europe's equity benchmark peaked in May 2018 and touched a December low equivalent to a fall of 19 percent. The style of the market favoured cyclical stocks and sectors until May 2018, but investors have subsequently moved to stocks defined as "secure growth" and "quality" to find safety from downgrades of earnings and economic growth. The market fell 7 percent in December and a counter-trend rally was to be expected in January. Given that all of the components of the leading indicator are currently in decline, we believe that the risk of renewed weakness is fairly high. However, our belief is that the market should bottom by the second quarter of 2019.

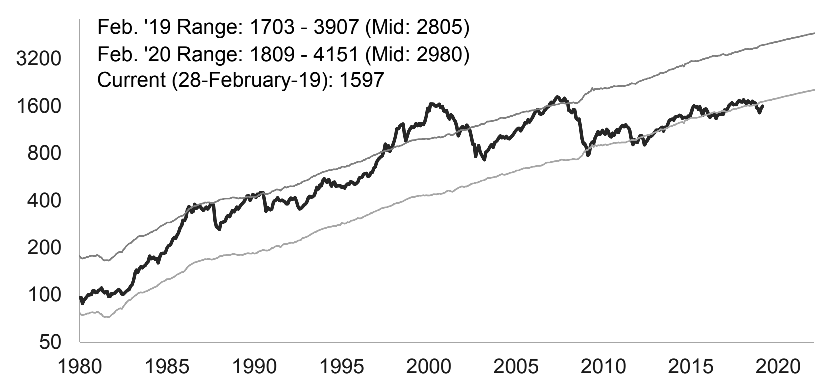
Our views on Brexit haven't changed much from the last quarter. The chaos has continued even as the scheduled date of departure, March 31, draws ever closer without a resolution of outstanding problems in sight. That said, investors have begun to detect that the risk of a "hard Brexit" – the departure of the U.K. from the EU without an exit pact – has diminished

Europe – Recommended sector weights

	RBC GAM Investment Strategy Committee February 2019	Benchmark MSCI Europe February 2019
Energy	7.0%	8.2%
Materials	6.5%	7.6%
Industrials	14.0%	13.1%
Consumer Discretionary	10.5%	9.4%
Consumer Staples	14.5%	13.9%
Health Care	14.0%	12.9%
Financials	17.5%	19.0%
Information Technology	6.0%	5.3%
Communication Services	4.0%	4.8%
Utilities	4.5%	4.1%
Real Estate	1.5%	1.5%

Source: RBC GAM

Eurozone Datastream Index Equilibrium
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM and a stabilization of share prices for domestically oriented U.K. companies now appears to be under way.

The second point made in the last edition – that U.K. businesses are having difficulty planning given this uncertainty – also stands. The high degree of uncertainty means that businesses are less likely to execute strategic planning or commit to capital investments, a state of affairs that is to nobody's benefit.

We perceive both short-term and long-term ways in which politics can disrupt markets in the U.K. and Continental Europe. First, there is the risk that slower economic growth will hurt corporate profitability, especially of companies that rely on domestic markets. We have already seen that valuations of domestically oriented stocks have fallen, while companies with an international bent have not been much affected.

While this trend will likely remain broadly intact, we believe that the valuation declines for domestic U.K. companies have been overdone in the short term. A more dramatic impact on markets would occur if the political framework were to shift to a more antagonist relationship between companies and governments and lead, in turn, to negative outcomes such as higher corporate taxes. Again, as it stands, we think that such outcomes are unlikely at this stage.

The second, more subtle, risk is best demonstrated by a brief history lesson from the first half of the 20th century. In his biography, the Canadian-British newspaper publisher Lord Beaverbrook commented that World War II might have been avoided had Britons not been so focused on the relationship between King Edward VIII and Wallis Simpson, and the king's resulting abdication in 1936. Beaverbrook's assertion strikes us as an overstatement but the point is interesting.

More concretely, this is a story of potential distraction: while the U.K. focuses on Brexit and Europe obsesses over its internal political fault lines, the world will move on while Europe, as a whole, falls behind its international peers. The implications for the companies that we focus on are fairly limited. These companies are highly international and in many instances derive the bulk of their revenues from outside Europe. But for domestic economies, and therefore to a certain extent domestic businesses, the implications are more profound.

We are hopeful that Brexit will be resolved in a more orderly fashion than is currently expected. In the event, the risks from Brexit and political turmoil in Continental Europe would revert to a low-grade level of local headwinds. The key macroeconomic issue to watch will be where we sit in the economic cycle, and we expect the weakness to bottom out by midyear. While it is very early in the current earnings season, it appears that the intensity of downgrades may have peaked during the third and fourth quarters of 2018, offering a hint of optimism.

In conclusion, the current economic environment suits our approach well. Businesses with stable economics and relatively insignificant exposure to Europe's domestic economy should continue to see their share prices track this resilience. Cyclical stocks are at risk, but their valuations have fallen since last June, and European politics remain a concern, although these concerns will ebb if Brexit is dealt with sensibly. As much of European commerce is highly international, the region is largely dependent on Chinese-American relations. It is likely that relations between the two largest economies will ultimately be the key factor for the European economy over the next year.

REGIONAL OUTLOOK – ASIA

Chris Lai

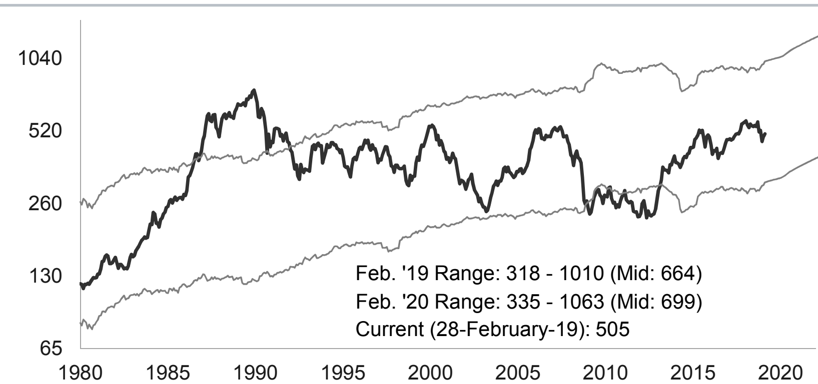
Analyst, Asian Equities
RBC Investment Management (Asia) Limited

Asia – Recommended sector weights

	RBC GAM Investment Strategy Committee February 2019	Benchmark MSCI Pacific February 2019
Energy	3.0%	3.5%
Materials	5.5%	6.5%
Industrials	11.5%	12.0%
Consumer Discretionary	15.0%	14.3%
Consumer Staples	6.5%	6.3%
Health Care	6.5%	6.0%
Financials	20.0%	20.7%
Information Technology	13.5%	12.6%
Communication Services	10.5%	9.8%
Utilities	3.5%	2.7%
Real Estate	4.5%	5.6%

Source: RBC GAM

Japan Datastream Index Equilibrium
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM

Asian-Pacific equity markets rallied in the three-month period ended February 28, 2019, as the region outperformed the broad MSCI World Index. The rally continued into 2019 amid optimism that the U.S. and China would succeed in resolving their trade dispute since U.S. President Trump has threatened to raise tariffs if no agreement is reached. Also aiding markets was China's use of increased monetary stimulus to support the country's slowing economy, prompting the return of investment flows into Asia, as well as lower oil prices and expectations of fewer U.S. interest-rate hikes this year. A more gradual pace of hikes by the U.S. Federal Reserve (Fed) bolstered the Japanese yen, holding back Japanese equities.

The strongest-performing Asian markets during the period were China, Hong Kong and Australia. India and Malaysia underperformed.

Japan

Japanese equities were hurt by the negative impact of falling global economic growth on earnings growth, which slowed to 4 percent in 2018 from 30 percent in 2017. Economic activity rebounded in the fourth quarter of 2018 following disruptions caused by extreme weather and natural disasters in the previous three-month period. Even with the slowdown in external demand, the Japanese economy remains sound, sustained by domestic consumption. Businesses continue to invest in automation in response to labor shortages, and the economy is further supported by construction related to the 2020 Tokyo Summer Olympics. Consumption will be especially strong in the early part of 2019, given a planned consumption-tax hike in October 2019. Also aiding the economy are the recent removal of immigration obstacles, easing chronic labour shortages stemming from an aging population.

On the monetary-policy front, the Bank of Japan (BOJ) is, as always, dedicated to increasing the rate of inflation, which remains stubbornly low. We expect the central bank to keep monetary policy steady and accommodative, as the weaker global backdrop gives the BOJ little opportunity to withdraw monetary stimulus. On the trade front, Japan continues to try to persuade the U.S. to avoid raising tariffs on Japanese cars. It is likely that Japan will lower tariffs on U.S. beef in an effort to reduce the country's US$69 billion trade surplus with the U.S.

Asia Pacific ex-Japan

Asian markets rallied at the very end of 2018 and into early 2019, retracing some of the losses recorded in a fourth-quarter downturn, as investors began to factor in the possibility that the Fed would raise its benchmark rate no more than once in 2019, down from expectations of as many as four increases. However, optimism created by prospects for lower rates and trade tensions has been tempered by concerns that Asian economies continue to decelerate. We expect a slowdown in first-half growth given overall weak demand and a falling-off in exports after tariff fears accelerated orders. That said, a recovery in the rate of growth is expected in the second half of 2019, driven by further monetary stimulus in China, the accommodative Fed and lower commodity prices. In our view, the second-half uptick will be particularly pronounced in more-open economies such as Hong Kong, South Korea, Taiwan and China. Property-market corrections remain a tail risk in the region, particularly in Hong Kong, China and South Korea.

In China, the current economic slowdown could push Beijing to take more aggressive policy action in the second half. The People's Bank of China is trying to stimulate lending, in part by reducing the level of reserves that banks must keep at the central bank. Such monetary measures will be insufficient to shore up the economy, in our view. Beijing has three other options to bolster economic growth: deeper cuts in value-added and corporate taxes; moderate depreciation in the renminbi to 7 per U.S. dollar to boost exports; and the easing of property-purchasing restrictions, along with lower mortgage rates.

Indonesian equities underperformed in recent weeks, but we expect them to recover given a steadily improving macroeconomic environment. Indonesia's 2019 GDP is forecast to rise to 5.4 percent in 2019 from 5.2 percent in 2018. The expansion is being supported by higher consumption growth, low inflation, falling unemployment, spending related to impending elections and additional money allotted to provide social assistance to lower-income households. President Jokowi's popularity remains high and he is expected to win re-election by a more significant margin than in 2014.

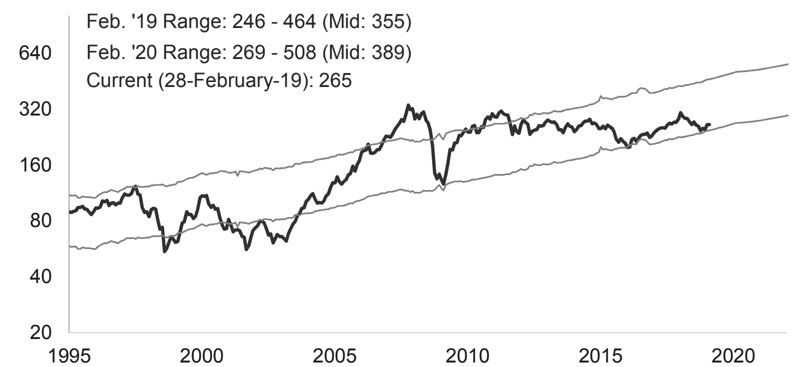
In India, we see weakening economic growth and rising political tensions. Efforts to narrow the country's fiscal deficit by curtailing consumption and capital expenditures have led to lower GDP growth. However, the risk of faster inflation has receded with lower crude-oil prices and moderating consumption, reducing the odds that the Reserve Bank of India will move to tighten monetary policy. On the political front, investors are increasingly concerned about the stability of the government, as the ruling party lost seats in recent state elections ahead of national elections scheduled for next month.

In Australia, housing prices have fallen after a long period of price appreciation driven by low interest rates and immigration. While the decline in housing has negatively affected consumer sentiment, losses on non-performing loans are not expected to rise as labour markets remain strong and banks have reduced lending to property speculators. An official inquiry into financial-services misconduct has ended with repercussions for wealth-management companies, while banks and insurance companies were relatively unaffected. Wealth-management companies will have to deal with a ban on controversial commissions, limits on advice fees and greater regulatory scrutiny.

REGIONAL OUTLOOK – EMERGING MARKETS

Laurence Bensafi
Portfolio Manager and Deputy Head
RBC Global Asset Management (UK) Limited

Emerging Market Datastream Index Equilibrium
Normalized earnings and valuations



Source: Datastream, RBC GAM

We are cautiously optimistic about emerging-market equities and do not believe that the performance pattern witnessed in 2018, when the market peaked at the end of January and collapsed for much of the rest of the year, will be repeated in 2019. There are three main reasons for our guarded optimism: valuations are more attractive after the MSCI Emerging Markets Index dropped 15 percent in 2018 while earnings per share rose about 10 percent; emerging-market currencies are much cheaper than they were a year ago; and investment inflows have started to increase as investors sell U.S. equities and shift the proceeds to emerging markets. We expect some of the worst-performing emerging-market countries, such as Turkey, China and South Africa, and sectors such as Consumer Discretionary and Real Estate, to perform better. We are also encouraged by progress in trade talks between China and the U.S. on tariffs.

The three-month period ended February 28, 2019, was an eventful time for emerging-market equities as the benchmark stock index rebounded more than 10 percent following a large sell-off in October. Emerging-market equities were seen as oversold, and the rotation away from U.S. equities magnified the large rebound in January 2019 after volatility led to a further round of global equity losses in December.

Until early November 2018, the U.S. Federal Reserve's (Fed) tone was hawkish, and monetary tightening in the U.S. and China was a major reason for the poor performance of emerging-market equities as the currencies and stock markets of the most fragile countries suffered. However, we have since witnessed a marked change in the mood of the Fed to dovish, benefiting emerging markets and signalling a major adjustment in the outlook for the U.S. dollar and its relationship with emerging-market currencies. A more dovish Fed has also made currencies of countries with the highest current-account deficits more attractive.

Unsurprisingly, 2018 proved disappointing in terms of investment flows as the euphoria from the January rally faded quickly and we saw constant outflows until October. Positive flows have resumed and outflows from U.S. equities into emerging markets amounted to about US$80 billion during the three months ended January. We note that most of the U.S. outflows has gone into ETFs, raising questions about investors' conviction in the rally.

The emerging-market stock index remains very attractive in terms of valuations even after the recent gains, as last year's stock decline collapsed the price-to-earnings ratio to just above 12 from 16 - well below the long-term average. Emerging-market stocks are also more attractive on a price-to-book-value basis than they were a year ago given a recovery in returns on equity.

While our outlook for emerging market equities is generally positive, we note that there have been earnings downgrades, particularly in the Information Technology and Communication Services sectors, as well as in some parts of the Consumer Staples sector (mainly in China) and Consumer Discretionary (mainly autos in China and South Korea). The overall downgrades have reached 5 percent since September 2018 and the current consensus EPS growth for 2019 now stands at 5.8 percent. The uncertainties around downgrades are centred on two topics: technology and China. We saw large downgrades in both hardware (semiconductors) and services (e-commerce and gaming). While some weakness is linked to the economic slowdown in China, other causes may be the somewhat saturated market for global smartphones and the fact that some new models were priced too high, leading to disappointing sales.

Looking in detail at earnings expectations for 2019, the 5.8 percent earnings-growth forecast seems quite low, but this number is heavily affected by the 20 percent earnings drop expected from the Information Technology sector. This sector represents close to 15 percent of the index even after gaming and e-commerce companies were transferred to the newly created Communication Services sector. Energy (8 percent of the emerging-market index) is expected to show limited growth, although the forecast would rise if oil prices continue their recovery. All other sectors have attractive growth potential, notably Utilities, the consumer sectors and Real Estate. Emerging markets look attractively valued overall assuming that the downgrades in the Information Technology sector are largely behind us.

We remain cautious about political changes in Brazil, South Africa and India and, despite recent progress in trade talks, are concerned that trade tensions between the U.S. and China could at some point trigger a sell-off in emerging markets. In India, it is difficult to predict the outcome of the national elections, and it is increasingly likely that the incumbent prime minister, Narendra Modi, may even lose power if he is challenged. In Brazil, we are optimistic about the economic impact of the new pro-business government and its agenda, which outlines plans to privatize most state-owned enterprises, reform the pension system, open up the country to foreign investment and reduce the corporate tax rate to about 15 percent from 34 percent. Pension reform will be key as the level of social security spending has almost doubled as a percentage of GDP in the past 20 years, even with the country's relatively young population. About 10 percent of Brazil's population is over the age of 65, compared with 38 percent of Japan's – and yet the countries spend about the same on social security.

China continues to be the key emerging market, due both to the size of its economy and the size of its equity market, which now represents 31 percent of the MSCI index, up from 18.5 percent in 2013 and less than 1 percent 20 years ago. In 2018 the Chinese stock market lost 19 percent, one of the worst-performing emerging markets, mainly because of liquidity tightening, some regulation changes in the gaming sector, and the trade tensions with the U.S. Also, for the first time since 2008, car sales fell. Overall, however, we feel that the Chinese market was oversold in 2018 and is now attractively valued.

RBC GAM INVESTMENT STRATEGY COMMITTEE

Members

Daniel E. Chornous, CFA

Chief Investment Officer
RBC Global Asset Management

Chair, RBC GAM Investment Strategy Committee

Dan Chornous is Chief Investment Officer of RBC Global Asset Management Inc., which has total assets under management of approximately $430 billion*. Mr. Chornous is responsible for the overall direction of investment policy and fund management. In addition, he chairs the RBC Investment Strategy Committee, the group responsible for global asset-mix recommendations and global-fixed income and equity portfolio construction for use in RBC Wealth Management's key client groups including retail mutual funds, International Wealth Management, RBC Dominion Securities Inc. and RBC Phillips, Hager & North Investment Counsel Inc. He also serves on the Board of Directors of the Canadian Coalition for Good Governance and is Chair of its Public Policy Committee. Prior to joining RBC Asset Management in November 2002, Mr. Chornous was Managing Director, Capital Markets Research and Chief Investment Strategist at RBC Capital Markets. In that role, he was responsible for developing the firm's outlook for global and domestic economies and capital markets as well as managing the firm's global economics, technical and quantitative research teams.

* AUM in CAD as of January 31, 2019.

Stephen Burke, PhD, CFA

Vice President and Portfolio Manager
RBC Global Asset Management

Stephen is a fixed-income portfolio manager and Head of the Quantitative Research Group, the internal team that develops quantitative research solutions for investment decision-making throughout the firm. He is also a member of the PH&N IM Asset Mix Committee. Stephen joined Phillips, Hager & North Investment Management in 2002. The first six years of his career were spent at an investment-counselling firm where he quickly rose to become a partner and fixed-income portfolio manager. He then took two years away from the industry to begin his Ph.D. in Finance and completed it over another three years while serving as a fixed-income portfolio manager for a mutual-fund company. Stephen became a CFA charterholder in 1994.

Dagmara Fijalkowski, MBA, CFA

Head, Global Fixed Income & Currencies
RBC Global Asset Management

As Head of Global Fixed Income and Currencies at RBC Global Asset Management, Dagmara leads investment teams in Toronto, London and Minneapolis in charge of almost $100 billion in fixed income assets. In her duties as a portfolio manager, Dagmara heads management of several bond funds, manages foreign-exchange hedging and active currency overlay programs across a number of funds. Dagmara chairs the Fixed Income Strategy Committee. She is also a member of the Investment Policy Committee, which determines asset mix for balanced and multi-strategy 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 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

Senior Vice President and
Senior Portfolio Manager
RBC Global Asset Management

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

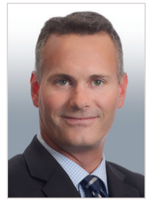
Chief Economist
RBC Global Asset Management

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 early 2011, Eric spent six years at a large Canadian securities firm, the last four as the Chief Economics and Rates Strategist. His previous experience includes positions as economist at a large Canadian bank and research economist for a federal government agency.

Hanif Mamdani

Head of Alternative Investments
RBC Global Asset Management

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.



Martin Paleczny, CFA

Vice President and
Senior Portfolio Manager
RBC Global Asset Management

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.

Sarah Riopelle, CFA

Vice President and
Senior Portfolio Manager
RBC Global Asset Management

Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions. Sarah 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 on a variety of projects, as well as co-manages the Global Equity Analyst team.

William E. (Bill) Tilford

Head, Quantitative Investments
RBC Global Asset Management

Bill is Head, Quantitative Investments, at RBC Global Asset Management and is responsible for expanding the firm's quantitative-investment capabilities. Prior to joining RBC GAM in 2011, Bill was Vice President and Head of Global Corporate Securities at a federal Crown corporation and a member of its investment committee. His responsibilities included security-selection programs in global equities and corporate debt that integrated fundamental and quantitative disciplines, as well as management of one of the world's largest market neutral/overlay portfolios. Previously, Bill spent 12 years with a large Canadian asset manager, where he was the partner who helped build a quantitative-investment team that ran core, style-tilted and alternative Canadian / U.S. funds. Bill has been in the investment industry since 1986.

Milos Vukovic, CFA

Vice President, Investment Policy
RBC Global Asset Management

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. He is a board member of both the Canadian Buy-Side Investment Management Association and the Canadian Advocacy Council for Canadian CFA Institute Societies, and recently joined IIROC's Market Structure Advisory Committee.

Brad Willock, CFA

Vice President and
Senior Portfolio Manager
RBC Global Asset Management

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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  Emerging Market Equities
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  V.P. & Senior Portfolio Manager,
  North American Equities
  RBC Global Asset Management Inc.

- **Mayur Nallamala**
  Head & Senior V.P., Asian Equities
  RBC Investment Management (Asia)
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- **Martin Paleczny, CFA**
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  Asset Allocation & Derivatives
  RBC Global Asset Management Inc.

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  Senior Portfolio Manager,
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- **Eric Lascelles**
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DISCLOSURE

Global Asset Management

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