



# One-minute market update

## Economy

- The economic backdrop is quite good by post-crisis standards, with many of the macroeconomic indicators we monitor at or near cycle highs.
- Inflation is firming, but our view is that inflation is simply transitioning to more normal levels after many years of being too low, rather than shifting higher to problematic levels.
- Key risks to our outlook are the aging business cycle, rising interest rates and protectionism, but we should not ignore the potential tailwinds from structural reforms in Japan and fiscal stimulus in the U.S.
- On balance, we expect the positives to outweigh the negatives, and for the global economy to grow at its fastest pace in eight years. Our forecasts for growth and inflation are slightly above consensus.

## Fixed Income

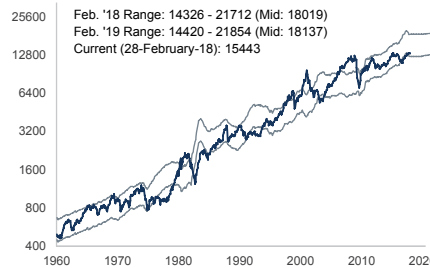
- Central banks are likely to continue dialing back monetary accommodation in an environment of improving economic growth and rising inflation.
- Our models suggest the long-term direction for bond yields is higher, but that the meaningful increase in yields over the past quarter has alleviated valuation risk in the near term.
- Although rising yields could act as a drag on fixed-income returns for many years, bonds play a critical role in a balanced portfolio serving as ballast against market volatility. We took advantage of the recent increase in yields to reduce our underweight position in fixed income by one percentage point, sourced from cash.

## Equity Markets

- Stocks corrected last month after a year of strong performance and unusually low volatility, as investors were unsettled by the prospect of higher inflation and interest rates.
- Our models suggest that rising interest rates and inflation are a mild drag on equity-market valuations. That said, price-to-earnings ratios may be even more susceptible to investor confidence, which is currently high and bolstered by the outlook for double-digit growth in corporate profits.
- We remain overweight stocks because we continue to expect them to outperform bonds, but our asset mix is closer to neutral than it has been in many years given the maturation of the business and market cycles as well as demanding valuations.

### CANADIAN EQUITIES – Fair value range

### S&P/TSX Composite Index

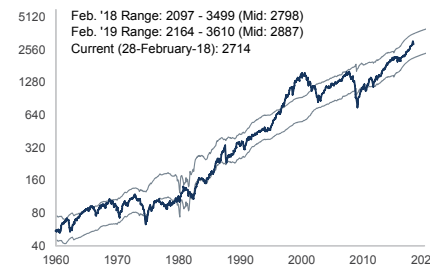


Over the three-month period ended February 28, the index decreased by -3.23%. Valuations remain at the lower fair value band.

Source: RBC GAM

### U.S. EQUITIES – Fair value range

### S&P 500 Index

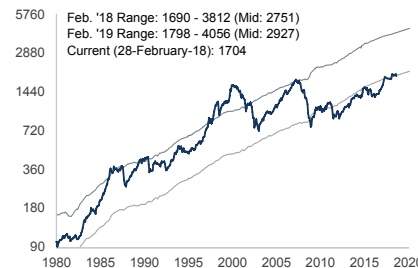


The U.S. stock market made progress over the three-month period ended February 28, rising 3.0% in local currency terms as the economic expansion continued. While valuations have increased, they still hover slightly below the midpoint of the fair value band.

Source: RBC GAM

### EUROPEAN EQUITIES – Fair value range

### Eurozone Datastream Index

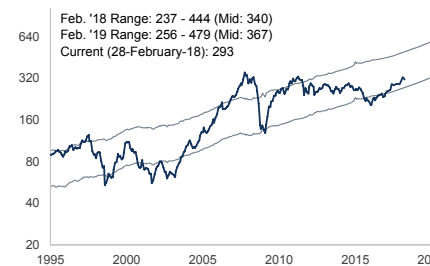


The MSCI Europe Total Return Index (USD) was up 1.1% for the three months as of February 28, 2018 and valuations sit just below the lower limit of the fair value band.

Source: Datastream, Consensus Economics, RBC GAM

### EMERGING MARKETS – Fair value range

### Emerging Markets Datastream Index



Emerging-market equities extended their recovery, rising 7.1% (USD) in the three months ended February 28, 2018. With significant gains over the past year, valuations continue to move above the lower limit of the fair value band, but are still well below the midpoint.

Source: Datastream, RBC GAM

\* Fair value estimates are for illustrative purposes only. It is not possible to invest directly in an unmanaged index.

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